

UNITED STATES TARIFF COMMISSION



**ECONOMIC CONTROLS
AND
COMMERCIAL POLICY
IN
BRAZIL**

One of a Series of Reports on
Economic Controls and Commercial Policy
in the American Republics



Washington
1945

UNITED STATES TARIFF COMMISSION

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FOREWORD

This is one of a series of reports on Economic Controls and Commercial Policies in the Latin American Republics.

Other work in preparation by the Commission relating to trade problems of the American Republics includes a series of reports under each of the following headings: Mining and Manufacturing Industries; Agricultural, Pastoral, and Forest Industries; and Recent Developments in Foreign Trade.

In the preparation of this report the Commission had the services of David Lynch, Allyn C. Loosley, and other members of its staff.

(24159)

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ECONOMIC CONTROLS AND COMMERCIAL POLICY IN BRAZIL

Introduction

Brazil—a summary description.

The United States of Brazil, ¹ the largest country of Latin America and the fourth largest in the world, occupies nearly half of the entire South American Continent. Extending approximately 2,600 miles north and south and with a maximum width of nearly 2,700 miles, it has a coast line of more than 4,900 miles. The total area, 3,286,170 square miles, exceeds that of continental United States by about 250,000 square miles; only the Soviet Union, Canada, and China are larger. Brazil is bordered on the north by Venezuela and the Guianas, on the west by Colombia, Peru, Bolivia, Paraguay, and Argentina, and on the south by Uruguay.

The Brazilian area varies greatly in topography. It may be divided into five regions: The lowlands drained by the Amazon and its tributaries, the La Plata River Basin; the Guiana Highlands; the Brazilian Highlands; and the coastal plain. The Amazon and La Plata River Basins together constitute about three-fifths of the total area.

The Amazon Basin, in western and northern Brazil, embraces more than one-third of the total area. It is drained by the world's largest river—the Amazon and its tributaries. Most of the Amazon Basin has an elevation of less than 800 feet, and receives excessive rainfall, the trade winds from the northeast and southeast losing their moisture as they reach the Andes. The rainfall in most places ranges from 60 to 100 inches a year, although some areas have 150 to 200 inches. Because of the heavy precipitation, a wide area in the Amazon Basin is annually in flood. The region is a tropical rain forest with a great variety of trees and a dense undergrowth; the climate is hot and humid throughout the year.

The La Plata Basin, in the southern part of Brazil, is more varied physically and is less heavily forested than the Amazon Basin; it has a higher elevation and a cooler climate.

The Guiana Highlands, part of which constitute northeastern Brazil, while the remainder is in the Guianas, are in part forested and in part a hot, stony desert. Sections of the area receive heavy rainfall from the northwest trade winds; the southern slopes are arid. The summers are extremely hot, but the winters are cool. In the forested area the rainfall, which occurs in the hot season, averages about 50 inches annually.

The Brazilian Highlands, which lie between the Amazon and La Plata Basins, back from the coastal plain, are a tableland ranging from 1,000 to 3,000 feet in elevation, traversed by several mountain ranges. The coastal range, which forms the eastern edge of the plateau, rises to elevations of 7,000 feet, and the interior ranges contain elevations of 10,000 feet. The plateau is largely a forest area, but there are also open prairies. Climatic conditions in the plateau differ widely from those in the Amazon Basin and the coastal plain. The temperature is less uniform than in the Amazon Basin, and precipitation varies considerably. In the northeastern section of the Brazilian Highlands the rain falls altogether in some years. The climate of the States of Minas Geraes, São Paulo, and Rio de Janeiro ranges from subtropical to temperate, with adequate rainfall, whereas that of Paraná, Santa Catharina, and Rio Grande do Sul is temperate. The climate of the interior States of Mato Grosso and Goiás is cool and healthful.

¹ In Portuguese, Estados Unidos do Brasil. The Federation consists of 20 States, 6 territories, and the Federal District.

The Brazilian coastal plain varies considerably in width; in some parts of the coast it disappears entirely. To the south it widens and merges with an extensive rolling, grassy plain. In the northern portion of this region the temperature and the humidity are high; south of the Tropic of Capricorn the temperature and the rainfall decrease.

According to the census of 1920, the population of the United States of Brazil totaled 30,636,000 persons. An estimate for 1942 placed the population at 43,550,000, an increase of more than 40 percent in 22 years. Although the density for the country as a whole is approximately 13 persons to the square mile, three-fourths of the inhabitants are concentrated in an area within about 100 miles of the coast, especially in the southern part. Vast areas in the Amazon Basin have a population density of not more than two persons to the square mile. Brazil contains two of the three largest cities in South America—Rio de Janeiro, the capital, having an estimated population of 1,585,000, and São Paulo, having a population of 1,906,000. Four other cities—Recife, São Salvador, Porto Alegre, and Belém—have populations of more than 200,000 each.

The racial composition of the Brazilian people is complex. Approximately one-half of the 44 million inhabitants are of European extraction; full-blooded Negroes, numbering about 2 million, or nearly one-half of all the Negroes on the South American Continent, live principally in the coastal regions of the central and northern parts of the country. Immigration during most of the nineteenth century was predominantly of Portuguese, as it had been during the colonial period. After the middle of the nineteenth century there was substantial immigration from Italy; since the beginning of the twentieth century, many Germans and Japanese have entered the country. In the 50 years 1887-1936, 4,098,000 persons entered Brazil, two-thirds of them being Italians and Portuguese.

Although the language of most of the countries of Latin America is Spanish, that of Brazil is Portuguese. Italian and German, however, are widely spoken in the southern States.

The Brazilian economy. 1/

Agriculture.—Despite Brazil's substantial industrial development, it is still predominantly an agricultural country. Only about 4 percent of its area, however, is actually under cultivation. Between one-half and two-thirds of this cultivated area is in the States of São Paulo, Minas Geraes, and Rio Grande do Sul.

The agricultural production of the country is diverse and includes that of coffee, cacao, tobacco, cotton, rice, sugar, fruits, grapes, wheat, corn, barley, rye, cassava, potatoes, yams, and beans. Other agricultural products grown include a large variety of oleaginous seeds, such as castor beans, cottonseed, peanuts, and oilseeds, as well as a number of medicinal plants; castor beans and cottonseed are of special importance to the Brazilian economy.

Notwithstanding the recent increased production of other commodities, coffee is the principal agricultural product. Brazil leads the world in the production and export of coffee; in the three seasons ended 1937-38 production averaged 3.1 billion pounds annually, compared with a total Latin American output of 4.4 billion pounds, and an estimated world production of 5.5 billion pounds. Coffee is grown in most of the Brazilian States, but two-thirds of the industry is in the State of São Paulo.

1/ This brief description of the Brazilian economy relates principally to the period before the outbreak of the war.

Production of cotton increased considerably in the decade 1929-38. After 1930 the poor returns from the coffee crop and the relatively high price of cotton in world markets led to the transfer of large acreages from the production of coffee to that of cotton. In 1929-30 the output of cotton was 571,000 bales; by 1937-38 it had increased nearly fourfold to more than 2 million bales, and in 1938-39 it amounted to 1.9 million bales.

Production of cacao, the third-most-important export commodity, in increased from 142 million pounds in 1929 to 313 million pounds in 1938; since 1938, however, production has declined.

Pastoral industries.—A favorable climate, an abundance of grazing lands, and ample vegetation make large parts of Brazil suitable for the raising of livestock, but only a small part of the available land is in use. During the colonial period and the first half of the nineteenth century, a fairly substantial pastoral industry developed, based largely on the production and export of dried or jerked beef, tallow, and hides. The exportation of salted beef and hides from the State of Rio Grande do Sul began in the eighteenth century, and in the early part of the nineteenth century an important industry developed.

Meat from South America began to be an important item in British imports in the 1860's, shipments coming largely from Rio Grande do Sul, Brazil, and from Montevideo, Uruguay. Subsequently, however, with the development of refrigeration, Brazil has ranked after Argentina and Uruguay, and pastoral products usually account for less than 10 percent of total exports. The largest single export is hides and skins; other important items are frozen, chilled, and canned meats.

Because of the diverse topography of the country, the Brazilian cattle and sheep industries have developed on a regional basis. The largest cattle-raising area, that of central Brazil, accounts for more than two-fifths of all the cattle in the country. Southern Brazil, containing the finest grazing area, has about 25 percent of the country's cattle, while the northeastern and eastern regions account, respectively, for about 14 and 17 percent of the total. Brazil's sheep-raising industry, an outgrowth of that in Argentina and Uruguay, is centered largely in the southern and eastern parts of the State of Rio Grande do Sul.

Forest industries.—Brazilian forest products include carnauba wax, mate, ¹/₂ rubber, and timber. A large number of oil-bearing nuts, mainly from wild trees, also are produced, principally babassu, tucum, and ouricury nuts. Brazil nuts, used directly for food, are produced chiefly from wild trees. Lumbering operations in Brazil's vast forest area are mainly confined to Paraná pine, although considerable quantities of hardwood lumber also are cut.

Until about 1910 Brazil was the world's principal source of rubber, which was derived from wild trees, but the development of plantations in the Netherlands Indies and British Malaya after 1900 resulted in the virtual eclipse of Brazil as a supplier and it now furnishes only a very small part of total world production.

Mining.—In mineral resources Brazil is one of the richest countries in the world, but actual exploitation, although rapidly increasing in recent years, is still on a relatively small scale with respect to most of the products. In addition to coal, iron, and copper, Brazil has what are probably the world's largest manganese deposits, as well as mica, lead, zinc, mercury, chromium, nickel, bauxite, gold, platinum, diamonds and many other precious and semiprecious stones, petroleum, kaolin, marble and other valuable building stones, phosphate of lime, and rock salt.

¹/₂ Brazilian tea. Inasmuch as the production of mate is principally from wild trees, it is here included under forest products.

Manufacturing.—Since the beginning of the century, manufacturing industries have undergone a marked development. Especially in the decade 1929-38, aided by import duties, import controls, depreciation of the currency, and special governmental aids, domestic industry expanded significantly, and the country attained practical self-sufficiency in the production of many consumer goods. Special efforts have been made to diversify industry, and, in order to facilitate the control of manufacturing by Brazilian nationals, restrictions have been placed on the operations of foreign-owned companies.

Manufacturing is devoted in large part to the production of consumer goods. The processing of foodstuffs and the production of textiles are the two most important manufacturing industries. Lesser industries include those producing containers, shoes, hats, tobacco, food products, chemicals, pharmaceuticals, paper, furniture, matches, metal art goods, lumber and its products, leather and its products, cement, pig iron, rolled iron and steel, and other steel products. Although for a number of important raw materials Brazil chiefly depends on imports, approximately four-fifths of the materials employed in manufacturing industries are produced within the country.

Pre-war foreign trade. ^{1/}

Before the war Brazil was the second most important trading nation of Latin America, being surpassed only by Argentina. In 1938 exports, valued at 5.1 million contos ^{2/} (296 million dollars), represented about 16 percent of the value of all exports from the 20 Latin American nations, and 21 percent of those from the 10 South American countries. Imports into Brazil in the same year totaled 5.2 million contos (296 million dollars) and accounted for 20 percent of the value of commodities purchased abroad by all Latin American countries, and 25 percent of those purchased by the 10 South American countries.

Brazilian exports usually have exceeded imports, but in recent years the size of the export balance, in terms of dollars, has been declining. In 1936 and 1937 the export balances were 75 million dollars and 17 million dollars, respectively. In 1938, however, the dollar values of imports and exports were about the same.

The outstanding feature of the Brazilian export trade is the country's dependence upon coffee and cotton; these two commodities represented more than three-fifths of total exports in 1939. Agricultural, pastoral, and forest products accounted for 98 percent of total exports in that year, and minerals for only 2 percent. Important developments in Brazil's export trade in the decade 1929-38 were the decline in the relative importance of coffee, increased exports of cotton, and the increasing importance of Germany as a market for Brazilian products. The principal markets for exports in 1938 were the United States (34 percent of the total value of the trade); Germany (19 percent); the United Kingdom (9 percent); France (6 percent); Argentina (6 percent); and Japan (5 percent).

The principal changes in Brazil's import trade in the decade 1929-38 included the declining importance of foodstuffs and the increase in the ratio of manufactured products to total imports. More than one-half of all imports into the country in the period 1936-38 consisted of manufactured articles. Imports of machinery, apparatus, utensils, and tools were of .

^{1/} For detailed analysis of the foreign trade of Brazil as well as other countries of Latin America in the decade 1929-38, see U. S. Tariff Commission, The Foreign Trade of Latin America (4 vols.), Report No. 146, Second Series, Washington, 1942.

^{2/} One conto equals 1,000 milreis or cruzeiros. On Nov. 1, 1942, the Brazilian unit of currency was changed from the milreis to the cruzeiro. The new unit was established at the same value as the milreis.

outstanding significance, reflecting the industrial development of the nation. Vehicles and accessories, wheat, iron and steel, coal and coke, petroleum products, and chemical products also were important. In the decade 1929-38 the United States and the United Kingdom declined in importance as suppliers and Germany gained. The principal sources of imports in 1938 were Germany (25 percent), the United States (24 percent), and the United Kingdom (10 percent).

General Character of Economic Controls and Commercial Policy

The outstanding feature of economic controls in Brazil since 1930 has been the increasing use of governmental and quasi-governmental agencies (the "defesa" institutes), which, in substance, have given something of the status of public utilities to numerous industries, including those producing coffee, cacao, sugar, mate, tobacco, rice, petroleum, pine lumber, fruit, and fish. These agencies, and the regulations established by them, have served a threefold purpose: They have been employed as developmental (fomento) organizations to promote domestic production; they have been used to stabilize domestic and foreign markets under the impact of abnormal dislocations; and in some cases, they have been instrumental in according producing interests a privileged or quasi-monopolistic position. An outstanding example of control is the petroleum industry, which, in 1938, was declared to be a public utility. Since then, the production and distribution of petroleum have been regulated by the National Petroleum Council.

The Government maintains various other controls over both the internal economy and foreign trade. Measures affecting foreign trade are directed to a variety of objectives, including the protection of domestic industries, the promotion of industrialization, the raising of revenue by duties on both imports and certain exports, the stabilization of prices of exports, the mitigation of exchange shortages, the allocation of available foreign exchange, and during the war, the control of strategic raw materials. Internal controls are directed to the stabilization and "rationalization" of production, promotion of domestic industries, stimulation of exports, conservation of materials essential to the domestic economy, and the regulation of prices.

The Brazilian customs tariff is one of the highest in South America. Customs revenues constitute the most important source of income for the National Government. All commercial treaties in force since 1936 have provided for the exchange of unconditional and unlimited most-favored-nation treatment. Such treatment is now guaranteed in agreements with nearly 40 countries. To foster certain industries, processors and distributors of commodities such as flour, alcohol, and coal have been required by law to utilize certain proportions of domestically produced goods, with the necessary result of restricting imports.

Since 1931 exchange operations have been subject to varying degrees of Government control; in recent years, however, the exchange position of the country has permitted a more liberal application of the regulations than prevailed in earlier years. Exchange operations are subject to the control of the Exchange Department (Fiscalização Bancária) of the Bank of Brazil.

Export controls have been established to stabilize the market for important export products, especially coffee. In 1940 Brazil became a signatory to the Inter-American Coffee Agreement, which established export quotas for the principal coffee-producing countries of Latin America. Export duties, levied almost exclusively by State Governments, account for 11 percent of total State revenues.

Since the outbreak of the war, the Office of the Coordinator of Economic Mobilization has been established with wide-reaching authority over the nation's economic life. A number of measures have been adopted to mobilize the economy to meet the needs of hemispheric defense; those include projects to expand the production of strategic raw materials, export controls to prevent their flow to enemy nations, and provisions for the blocking of funds of Axis nations and their nationals. An example of direct Government aid to industry during the war is the construction of a modern steel plant at Volta Redonda by a Government-controlled company with the aid of United States capital.

Economic Controls and Commercial Policy before 1940.

The tariff.

For more than a century revenues from the tariff have been the chief source of income to the National Government. Between 1915 and 1935 approximately 40 percent of the Federal income was derived from customs duties; in more recent years the proportion has been about 30 percent. Effective tariff rates have been relatively high. Between 1930 and 1940 customs revenues were equivalent to between 20 and 30 percent of the total value of imported goods (including those free of duty).

The period preceding 1934.—Throughout most of the nineteenth century the Brazilian tariff was primarily a fiscal instrument, and the rates of duty were adjusted to obtain the revenue desired.^{1/} Since the establishment of the Republic in 1889 increasing emphasis has been placed upon protection. During the first decade of the twentieth century sentiment for protection was strong in Brazil, being supported by practically all political parties and by all economic groups, except the landowners. Measures to foster domestic industries were provided by the tariff of 1900, under which the rates of duty for many imported products were substantially higher than those imposed by most other countries adhering to protectionist policies. According to a study made in 1913,^{2/} comparing Brazilian tariff rates with those imposed by Argentina, the United States, Germany, and France, ad valorem rates of duty in Brazil on representative import items^{3/} ranged from 2 to 40 times as high as those in the other countries. Many industries have been dependent upon the protection thus afforded, the most notable being the cotton textile industry.

Until 1934, the Brazilian tariff was based on the act of 1900.^{4/} The rates of duty in that act were predominantly specific, although a number were ad valorem. In the tariff schedule it was the custom to publish with each specific rate a "ratio" (razão) representing a crude approximation of its ad valorem equivalent. Authorities estimated that a razão of 40 percent or more was generally protective in effect. In the tariff of 1900, 2,015 items in the schedule had a razão of 40 percent or more. There were 51 items with a razão of 40 percent; 1,505, of 50 percent; 439, of 60 percent; 18, of 80 percent; and 2, of 100 per-

^{1/} The tariff laws of 1869, 1886, 1890, and 1896, however, were to some extent protective.

^{2/} Manoel Jansen Muller, "Tarifa Alfandegaria do Brasil," Jornal de Economia Politica, vol. II, No. 4; see also U. S. Federal Trade Commission, Report on Trade and Tariffs in Brazil, Uruguay, Argentina, Chile, Bolivia, and Peru, Washington, 1916, pp. 65-73.

^{3/} Such as felt hats, shoes, lard, condensed milk, butter, cheese, ham, candles, combs, dried fruit, preserved fruit, rice, crackers, macaroni, tea, sugar, beer, shoe polish, lead pencils, and writing inks.

^{4/} Executive Decree No. 3617, March 19, 1900.

cent. Tariff rates affecting particular items were modified frequently between 1900 and 1934. Established at times by law and at times by Executive decree, these modifications often were protective in character. Between 1922 and 1929 such increases in tariff rates affected principally silk yarn, raw cotton, cotton yarn, and cotton textiles.

Duties actually collected in terms of the basic tariff rates during this period varied in accordance with (1) the proportion of the basic duties which was required to be paid in "gold," and (2) the officially established relationship (agio) between the gold milreis (the tariff monetary unit) and paper currency (the circulating medium). Nominally, all duties were payable in gold; in actual practice, however, no gold was in circulation and importers paid in paper currency, the amount payable in gold being adjusted from time to time to partially compensate for the depreciation of the currency. Even before the tariff of 1900, importers had been required to pay a percentage of import duties in "gold." Beginning in 1898 this proportion was fixed at 10 percent. As the currency depreciated, the required percentage was increased successively between 1899 and 1923. On January 1, 1923, the proportion of duties payable in "gold" milreis was increased to 60 percent and that of paper thereby reduced to 40 percent. These periodic changes in the percentage of duties payable on a gold basis served somewhat the same purpose as an upward revision of the tariff.

The official exchange relationship (agio) between the gold milreis of the tariff and the paper milreis (applicable to the percentages of duties payable in gold and paper), varied widely between 1900 and 1934. The official agio was employed to compensate for fluctuations in the exchange value of the paper milreis; an increase or decrease in the agio resulted in an increase or decrease of the duties payable in paper milreis. In November 1921, for example, the agio was 4.256; it varied from time to time, increasing to 6.226 in October 1933. In November 1933 the system of applying varying agios to tariff book rates was discontinued, and replaced by the conversion of the latter to paper milreis at a fixed ratio of 8 to 1. This represented an increase of about 29 percent in paper milreis equivalents, the agio having been 6.226 just before the change.

The tariff of 1934.—The present Brazilian customs tariff,^{2/} based on the act of 1934,^{1/} provided for three columns, with "general" rates, "minimum" rates, and a limited number of conventional rates below the "minimum," made by agreement with other countries. Minimum rates apply to products of countries which guarantee similar treatment of Brazilian exports. Such rates have been extended to practically all major countries except the Soviet Union; thus the "general" rates have a very narrow application. The general rates exceed the minimum rates by a little more than one-fifth. The benefit of reductions below the rates of the minimum column, granted to the United States in the trade agreement of 1936, has been extended, at least provisionally, to most countries which enjoy unconditional most-favored-nation treatment in their commercial relations with Brazil. Certain other conventional reductions below the minimum rates, however, appear to have been granted to only a few countries having most-favored-nation agreements with Brazil.

Although the new tariff schedule followed the general pattern of the old, its structure was materially simplified. The policy of collecting a portion of the duties in terms of "gold" was abandoned; all previous surcharges were eliminated and replaced by a single surtax of 10 percent

^{1/} Executive Decree No. 23481, November 21, 1933, effective January 1, 1934.

^{2/} The Customs Tariff of 1940 is, in effect, a reprint of the tariff of 1934.

^{3/} Executive Decree No. 24343 of June 5, 1934, effective September 1, 1934.

of the rate of duty. Since 1934, however, additional surtaxes have been imposed. The Pensions Tax, established in 1935, is an ad valorem tax on practically all imported merchandise, levied to provide funds for the new pension and retirement program.^{1/} In 1937 a tax of 600 reis (then about \$0.037) per bag of 44 kilograms (100 pounds) was imposed upon imports of wheat;^{2/} in 1938 an additional surtax of one-fifth reis per kilogram was placed on all imports,^{3/} and a tax of 300 reis (then about \$0.017) per kilogram on all imported fish products.^{4/} The rates of duty in the new tariff schedule were still predominantly specific; the number of ad valorem rates was reduced. The new rates, payable in paper currency, in general represented the former rates multiplied by a factor to compensate for the currency depreciation which had taken place.^{5/} The former protective policy was retained throughout the new schedule; moreover, increased rates of duty were provided for certain commodities.

The practice of granting exemptions from or reductions in customs duties on machinery and essential supplies for new industries has been an important characteristic of Brazilian tariff policy. Such concessions have been extended to products imported by industries engaged in the production of coal, petroleum, cement, glass, cellulose, beer, linseed oil, quebracho extract, sugar, and rubber products; and to mining companies, banana plantations, newspapers, and fisheries. These concessions, however, are not applicable when it can be shown that domestic producers can adequately supply the materials required for the operation of these industries. This regulation, sometimes referred to as the "Law of Similars"^{6/} has been administered by a Similar Product Committee (Comissão de Similares) which, from time to time, has published lists of products for which concessions may not be made. The 10-percent surcharge, previously mentioned, is applicable to goods nominally entitled to free entry for the benefit of a given industry. When free entry is granted to products otherwise subject to duty, the rate listed in the schedule is taken as a basis for collecting the 10-percent surcharge; when no specific rate is mentioned in the tariff, the 10-percent surcharge is converted into a tax of 2 percent ad valorem, based on c.i.f. values. In some instances the surtax is not collected.

In addition to customs duties, other charges were imposed on imports before 1940. These included a statistical tax, a port tax to defray the cost of port construction work, an ad valorem tax on cereals, a surtax on silk products, and a "road tax" on imported petroleum products. Internal consumption taxes, which in some instances bear more heavily on imports than on products of domestic origin, in their effect constitute taxes on imports.

Tariff powers of the Executive.—Since 1934 the broad powers exercised by the Executive over the tariff have included the following:

- (1) The Executive is authorized temporarily to reduce or to remove duties (a) on articles which compete with similar goods produced in Brazil by trusts or cartels, or sold at excessive prices, and (b) on goods of a type not produced in

^{1/} Executive Decree No. 159, December 30, 1935; modified by Executive Decree No. 591, January 15, 1936.

^{2/} Executive Decrees No. 470, August 9, 1937, and No. 72, December 16, 1937.

^{3/} Executive Decree No. 651, August 26, 1938.

^{4/} Executive Decree No. 291, February 23, 1938.

^{5/} The publishing of *razões* was discontinued.

^{6/} Executive Decree No. 24023, March 21, 1934; superseded by Executive Decree No. 300, February 24, 1938.

Brazil and intended for consumption in a specified region and essential to the development of that region.^{1/}

The antimonopoly provision was invoked with respect to wheat in May 1936, at which time it was declared that an international trust had conspired to raise the price of wheat to an unjustifiable degree, and thereby was reaping profits disproportionately high in relation to the capital invested; the duty on wheat flour was lowered by 20 percent.^{2/}

(2) The Executive may increase duties by as much as 100 percent above the general rates provided for in the tariff on the products of countries which discriminate against Brazilian exports, or when necessary to protect the domestic market against dumping.^{3/}

During 1933-34 penalty duties were applied against French products as one of the instruments employed in a "trade war" between the two countries.^{4/} Penalty measures initiated by both countries were terminated by the commercial agreement of May 14, 1934. So far as is known, up to 1940 the antidumping measures had not been invoked.^{5/}

(3) The Executive is further authorized to legislate by decree during recess or dissolution of the Chamber of Deputies.^{6/} Moreover, under the transitory provisions of the Constitution of November 10, 1937,^{7/} the Executive has discretionary power to legislate by decree in regard to import duties until a plebiscite on the Constitution has been held and a National Parliament elected.^{8/}

Powers over the tariff were first assumed by the Chief of the Provisional Government in September 1931. Both the tariff revision of 1931 and the Tariff of 1934 were initiated by the Executive. Numerous changes affecting individual commodities have been decreed since 1937.^{9/}

(4) Irrespective of the transitory constitutional provisions, the Executive has discretionary powers under the Constitution of 1937 to place international agreements in effect provisionally, subject to subsequent approval by the Legislature.^{10/}

The Superior Tariff Council.—In addition to the Similar Products Committee, two executive agencies have advisory functions respecting tariff rates; these are the Superior Tariff Council (Conselho Superior da Tarifa)

^{1/} Article 4, Executive Decree, No. 24343, June 5, 1934.

^{2/} Executive Decree No. 803, May 8, 1936.

^{3/} Article 3, Executive Decree No. 24343, June 5, 1934.

^{4/} For a brief account of the methods of retaliation employed by both countries, see Horace G. White, "Blocked Commercial Balances in American Foreign Policy," *American Economic Review*, March 1939, p. 84.

^{5/} In May 1944, under the antidumping provisions, the duties on plain flat glass were doubled.

^{6/} Constitution of 1937, article 13.

^{7/} Article 180.

^{8/} Executive Decree, September 8, 1931.

^{9/} U. S. Tariff Commission, *Regulation of Imports by Executive Action*, Washington, 1941, pp. 27-38.

^{10/} Constitution of 1937, article 74n; this power had not been granted by the Constitution of 1934.

established in March 1934, ^{1/} and the Federal Foreign Trade Council (Conselho Federal do Comércio Exterior). Regional tariff commissions have been organized in each customs district to hear appeals from the decisions of customs officers and to serve in an advisory capacity to the chief customs inspector. Appeals from the decisions of the regional tariff commissions may be made to the Superior Tariff Council, whose decisions are final. The functions of the Tariff Council, however, are much broader; it is charged with supervising the uniformity of customs classifications and is authorized to propose tariff changes considered to be in the best interests of the country; it serves in an advisory capacity to the Executive with respect to commercial agreements; and it may indicate the column of the tariff (general, minimum, or conventional) which shall be applicable to individual items imported from a given country. The Council, ^{2/} is required also to examine periodically the tariff "assimilations" ^{3/} approved during preceding periods; if there is no reason for modifying them, they become effective by a special decree of the Ministry of Finance.

The Federal Foreign Trade Council.

The Federal Foreign Trade Council, also established in 1934, ^{4/} is an autonomous organization responsible directly to the Executive; it has broad advisory and consultive responsibilities in virtually all matters affecting foreign trade. This agency, modeled somewhat after the British Board of Trade, is composed of 10 councilors and 5 technical advisers appointed by the Executive.

The chief duty of the Council has related to the promotion of the Brazilian export trade by the analyzing of foreign markets, by studying production and marketing methods, and by serving as an information clearing house for producers. The Council also is authorized to propose new commercial agreements and to advise the Executive concerning them, to undertake studies relating to the economic development of the country, and to propose specific regulations affecting foreign trade. Upon recommendation of the Foreign Trade Council various producers have been granted more favorable exchange treatment; others have benefited from increased rates of duty on certain imports and by the modification of certain internal taxes. Before March 1939 the Foreign Trade Council was concerned with the actual negotiation of commercial agreements with other countries; since that time, however, its functions have been principally advisory. ^{5/}

Commercial agreements.

Provision for unconditional most-favored-nation treatment has characterized all commercial agreements concluded between Brazil and other countries since 1935. In 1931 the Minister of Foreign Affairs was directed to invite foreign countries to negotiate reciprocal unconditional most-favored-nation treaties with Brazil. ^{6/} As a result, most of the impor-

^{1/} Executive Decree No. 24036, March 26, 1934, see also Executive Decree No. 24343, June 5, 1934.

^{2/} The Superior Tariff Council is composed of six members, three selected by the Minister of Finance and three representing taxpayers.

^{3/} When an imported article does not fall within any designated classification of the tariff schedule it is the duty of the customs authorities to "assimilate" it to the category which it most closely resembles.

^{4/} Executive Decree No. 24429, June 20, 1934. The Foreign Trade Council was reorganized by Executive Decrees No. 74, December 16, 1937, and No. 1163, March 17, 1939.

^{5/} Executive Decree No. 1163, March 17, 1939.

^{6/} Executive Decree No. 20380, September 8, 1931.

tant commercial countries, including the United States, were accorded the minimum Brazilian tariff rates,^{1/} a few by virtue of existing agreements and the others by new exchanges of notes.^{2/} By the end of 1935 Brazil had commercial agreements with 43 countries; most-favored-nation treatment was pledged to 38 countries, and minimum rates to 4 others. Twenty-five of the most-favored-nation agreements were unconditional.

The trade agreement with the United States, effective January 1, 1936,^{3/} marks an important step in Brazilian commercial policy. In addition to duty concessions and assurance of reciprocal unconditional most-favored-nation treatment, the agreement provides special safeguards against impairment of its trade benefits by import quotas, new internal taxes, or exchange control. Under the agreement, Brazil granted reductions in duty on 67 United States products, and bound 39 additional classifications against the imposition of or increase in import duties. The reductions ranged between 20 and 67 percent of the duties in force before the agreement. The United States assured Brazil of continued duty-free admission into the United States of coffee and 11 other Brazilian products, which together ordinarily account for 90 percent of United States imports from Brazil. Reductions in duties were provided for 7 commodities.^{4/}

Immediately following the negotiation of the trade agreement with the United States, and upon the recommendation of the National Foreign Trade Council, Brazil undertook to revise earlier agreements to assure more uniform application of the unconditional most-favored-nation principle. By a decree of December 30, 1935, the Executive gave instructions for the revision of all commercial agreements concluded before January 1, 1934, and for their termination not later than July 30, 1936. All agreements except those with the United States, Argentina, Uruguay, and Portugal were denounced. Agreements renewing or continuing the previously accorded unconditional most-favored-nation treatment subsequently were negotiated with practically all the countries affected. By the end of 1939 unconditional most-favored-nation agreements or assurances of minimum-tariff treatment were in effect between Brazil and the following countries:

Argentina	Finland	Poland
Austria	France	Portugal
Belgium-Luxemburg	Germany	Rumania
Canada	Hungary	Spain
Chile	Iceland	Sweden
Colombia	India	Switzerland
Cuba	Italy	Turkey
Czechoslovakia	Lithuania	Union of South Africa
Denmark	Mexico	United Kingdom
Ecuador	Netherlands	United States
Egypt	Newfoundland	Uruguay
Eire	Norway	Venezuela
	Peru	

Brazilian policy appears to be, as far as possible, not to extend to other countries from under the most-favored-nation clause, certain concessions made to neighboring South American countries. On the other hand, conventional reductions made below the minimum tariff rates in the trade agreement with the United States, which comprise the largest list of Brazilian concessions, are known to have been extended promptly to 26

^{1/} Brazil has a 3-column tariff schedule; see the section on the tariff.

^{2/} U. S. Tariff Commission, Extent of Equal Tariff Treatment in Foreign Countries, 1937, pp. 107-109.

^{3/} Signed on February 2, 1935.

^{4/} U. S. Tariff Commission, The Foreign Trade of Latin America, 1942, pt. II, vol. 1, pp. 74-75; see also U. S. Department of State, Press Releases, February 2, 1935, and April 27, 1935.

countries.^{1/} In addition, France obtained the benefit of all the concessions made except those on refrigerators and calculating machines. After the renewal or continuation of the agreements which were denounced after January 1, 1936, the concessions to the United States had been extended in 1936 to 33 countries, which supplied 95 percent of total imports into Brazil in 1935.

Other restrictions on imports.

Import prohibitions to prevent industrial overexpansion.--Between 1931 and 1937 special import restrictions were imposed to protect certain manufacturing industries from overexpansion. In April 1931, the importation of machinery and equipment for industries deemed to be in a "state of overproduction" was prohibited for a period of 3 years.^{2/} This protection was designed especially to aid the textile industry, in which conditions were particularly acute; the regulations, however, were soon applied to machinery employed in the production of shoes, hats, sugar, matches, and paper. No equipment could be imported for plant expansion; special permits for replacement machinery could be obtained, however, from the Ministry of Labor, Industry, and Commerce. In 1933 this law was extended for an additional 3 years.^{3/}

Required consumption of domestic products.--In addition to assistance accorded certain industries through the protective tariff and the "defesa" institutes, aid has been granted to others by requiring the domestic consumption of certain products of national origin. An example of this policy is the compulsory mixing of anhydrous alcohol with gasoline.^{4/} Similarly, domestic processors and distributors have been required to provide a market for domestically produced coal and flour.

The Brazilian coal industry is particularly dependent upon the protection thus afforded. About half of domestic requirements of coal ordinarily is supplied by imports, with the result that Brazil has experienced critical shortages during periods of war. Since 1904 a number of measures have been adopted to foster the domestic production of coal. In 1916 a customs duty of 2 percent was imposed on imports of coal; coal was likewise included in the list of "similars" on which tariff exemptions and concessions may not be made. After 1931 all coal-importing firms were required to purchase quantities of domestic coal equal to 10 percent of their imports;^{5/} in 1937 this proportion was increased to 20 percent.^{6/} These efforts to increase production in Brazil have been effective; between 1930 and 1940 the domestic output nearly doubled.

A similar policy has been adopted to encourage the production of wheat. Brazil usually ranks fifth among the wheat-importing nations of the world; domestic production ordinarily accounts for only about 15 percent of total consumption. Brazilian policy has encouraged local production by assuring growers a constant market for their product at favorable prices; furthermore, it has sought to develop varieties suitable for standard

^{1/} A Brazilian customs order published January 16, 1936, named Argentina, Uruguay, Colombia, Mexico, Austria, Belgium-Luxembourg, Canada, Czechoslovakia, Denmark, Finland, Germany, the United Kingdom and its possessions and mandates, Hungary, Italy, Iceland, Latvia, Lithuania, Norway, the Netherlands, Poland, Portugal, Rumania, Sweden, Switzerland, Yugoslavia, and Japan (Commerce Reports, February 1, 1936). Eire, British India, New Zealand, the Union of South Africa, and Newfoundland were assured most-favored-nation treatment in British agreements with Brazil.

^{2/} Executive Decree No. 19739, April 7, 1931.

^{3/} Executive Decree No. 23486, November 22, 1933.

^{4/} See the section on the Sugar and Alcohol Institute.

^{5/} Executive Decree No. 20089, June 9, 1931.

^{6/} Executive Decree No. 1828, July 21, 1937.

milling practices and to assist growers through educational and experimental programs. In November 1937 the Federal Government established regulations requiring compulsory mixing of flours milled from domestic products with imported wheat flour and with flour milled in Brazil from imported wheat.^{1/} The Flour Trade Supervision Service (Serviço de Fiscalização do Comércio de Farinhas) was established, and the new regulations provided that imported wheat flour used by bakers and other processors must be mixed with a prescribed percentage of domestic flours; the Service was authorized to fix, from time to time, the proportion required, but it may not fix it at more than 30 percent. According to regulations in force late in 1939, millers were required to mill at least 10 percent Brazilian wheat; a similar proportion of domestic flour had to be added to imported flour. Moreover, to all flour milled from wheat it was obligatory to add 10 percent of cassava or manioc flour, 5 percent of corn flour, and 3 percent of rice flour. Minor exceptions to these regulations were permitted. Imports of wheat and flour are subject to the control of the Board, permits being required to assure observance of the regulations.^{2/} The mixing requirement was suspended for the duration of the war by a decree of May 17, 1944.

The duties of the Flour Trade Supervisory Service resemble those of the developmental institutes. The Service has established experiment stations and has initiated projects to improve domestic wheat production; it maintains a statistical service relating to both domestic production and imports, and, from time to time, it fixes prices to growers.

Export duties.

The Brazilian system of export duties presents an interesting contrast to the practices employed in other countries of South America. Whereas in other countries receipts from export duties constitute revenues of the National Government, in Brazil export taxation is administered almost exclusively by the States.^{3/} The few Federal export duties, affecting such products as coffee and mate, have been of recent origin and the revenues derived therefrom have been employed to finance activities for the particular benefit of the industries concerned.^{4/}

Export duties constitute the second most important source of revenue of the State Governments; as recently as 1916 they were the major source. Because of the tendency to reduce the burden of these taxes, and because of the increased use of other revenue devices, the proportion of State income derived from export taxes has declined in recent years. In 1940 the States received about 11 percent of their revenues from these duties; proportions for individual States varied from 5 percent in Rio Grande do Sul to 42 percent in Piahy.^{5/}

In many States practically all important export commodities are dutiable; the burden of export taxes has fallen principally upon the following commodities: Coffee, cacao, sugar, rice, mate, tobacco, rubber,

^{1/} This policy was inaugurated by an Executive Decree of November 30, 1937; specific regulations were set forth in Executive Decree No. 2307 of February 3, 1938.

^{2/} In August 1938 import permits also were required for oats and rye.

^{3/} By terms of the Constitution of 1929, the power to levy duties on imports of foreign origin is an "exclusive prerogative of the Union" and the power to levy taxes "on the exportation of goods of their own production" is "within the exclusive jurisdiction of the State." (Article 7 and article 9.) See also the Constitutions of 1934 and 1937.

^{4/} See the sections on coffee stabilization and the Mate Institute.

^{5/} The State of São Paulo levies no export duties.

cotton, carnauba wax, hides and skins, cattle, lumber, and manganese. In recent years, despite national efforts to foster the textile industry by means of import duties, at least five States have taxed exports of cotton textiles.

Export duties vary from State to State both as to the commodities affected and the rates applicable. In addition to taxes specifically designated as export duties (imposto de exportação), a number of States impose other charges to provide revenue for particular budgetary commitments; these, although not specifically so designated, are in effect export duties. The rates of export duties are generally ad valorem and are based on a system of official valuations. Since 1910, the rates of duty ordinarily have ranged from 5 to 10 percent for most commodities, although some have been as high as 30 percent. By a provision of the Constitution of 1937, the taxation of exports of merchandise by the States was limited to a maximum of 10 percent ad valorem.^{1/}

Until recently, the export duties of the Brazilian States were levied upon commodities entering both foreign trade and interstate commerce. Since 1932, however, there has been increasing concern in Brazil over the effects of interstate trade barriers on the development of national economic life. In 1932 the Government announced its intention to eliminate State customs duties.^{2/} The new Constitution, promulgated in 1937, provided that no customs barriers or other trade restrictions may be established between the States, and forbids both States and municipalities to collect transit or transport taxes or otherwise to obstruct the freedom of interstate commerce.^{3/} Measures have since been adopted to implement this policy. Executive decrees in 1937 and 1938^{4/} provided for successive annual reductions of all State export duties, until their final elimination in 1943.^{5/} These modifications, however, apply only to export taxes as they affect interstate commerce, and not to export duties on commodities shipped to foreign countries, which continue to have a restrictive effect on foreign trade.

Exchange control.

Although formal exchange control was first established in Brazil in 1931, measures had been adopted before that time to stabilize the foreign-exchange value of the milreis. Between 1910 and 1930 there was a continuous depreciation in the value of the currency.^{6/} In 1926 a Stabilization Office was created,^{7/} and the Government undertook to stabilize the milreis at about 12 cents. Soon thereafter, the world-wide depression resulted in dislocations of far reaching significance to the Brazilian economy. In October 1929 the coffee market collapsed; prices declined nearly 50 percent within the following year. Prices of other Brazilian export commodities followed a similar trend. The prices of essential imports, on the other hand, fell less rapidly. This disparity, of course, was reflected in the balance of payments, and by 1930 the gold reserves

^{1/} Article 23e; see also article 8 of the Constitution of 1934.

^{2/} Executive Decree No. 21418, May 17, 1932.

^{3/} Article 25.

^{4/} Executive Decrees No. 142, December 29, 1937, and No. 379, April 18, 1938.

^{5/} Executive Decree No. 4994, November 12, 1942; by terms of this decree all duties on commerce between the States were to be eliminated by March 31, 1943.

^{6/} The value of the milreis had previously declined almost steadily from a high of 96 English pence (\$1.95) in 1814 to about 16 pence (\$0.33) in 1910.

^{7/} Executive Decree No. 5108, December 18, 1926; the Stabilization Office began operations on April 8, 1927.

of the country practically disappeared. During 1930 the value of the milreis declined 20 percent.^{1/} Confronted with these conditions, the stabilization program proved inadequate, and the Stabilization Office was officially closed on November 22, 1930.

Exchange control was inaugurated in September 1931,^{2/} at which time it was required that all foreign-exchange transactions be conducted through the Bank of Brazil (Banco do Brasil). The Bank exercised this monopoly through most of the succeeding 3 years. Export permits were issued only after the corresponding exchange had been sold to the Bank, which in turn allocated it in accordance with the needs of the economy. In general, exchange was granted first to the Government for the payment of official purchases and for the service of the debt; second, to pay for essential imports; and third, for other purposes, including payments of interest and profits to foreigners. Because of the decline in the export balance of trade, the supply of exchange was generally inadequate for essential imports and for the service of foreign obligations; this gave rise to considerable activity on the illegal or curb market.

In the period 1931-34, exchange was purchasable at three different rates--the official rate, the curb ("black") rate, and the "gray" rate. Official exchange, the only legal type quoted during most of this period, already has been described. Curb exchange, sometimes spoken of as the "black" or "bootleg" market, represented clandestine transactions; quotations on this market, in terms of milreis per unit of foreign currency, were substantially higher than the official rate. In 1933, in order to discourage these activities the Government undertook to sell to brokers a portion of the exchange purchased at the official rate. These funds were then made available to importers at a rate somewhat higher than the official rate, but below that on the curb. This market was referred to as gray exchange.

A series of measures adopted during 1934 resulted in a much more liberal exchange control policy. Commercial banks were authorized to purchase and sell, at open-market rates, exchange derived from sources other than exports.^{3/} Funds available for the new free market were principally those which theretofore had supplied the illegal curb market. The Bank of Brazil continued, however, to exercise a monopoly of the purchase of all exchange arising from exports, and it continued to supply cover for approved imports at the official rate. Soon thereafter, control was further liberalized by authorizing the free exportation of goods not specifically mentioned in Brazilian export statistics.^{4/} Export permits were not required for these commodities, and the resulting export bills could be sold in the free market.^{5/} The number of such commodities

^{1/} The average dollar equivalent of the milreis (official rate) for specified years was as follows: 1929, \$0.1181; 1930, \$0.1071; 1931, \$0.0703; 1932, \$0.0712; 1933, \$0.0796; 1934, \$0.0843; 1935, \$0.0829; 1936, \$0.857; 1937, \$0.0864; 1938, \$0.0584; 1939, \$0.600. The free market rate was as follows: 1936, \$0.0588; 1937, \$0.0620; 1938, \$0.0584; 1939, \$0.0512. The special free-market rate in 1939 (average April 10 to December 31) was \$0.0464.

^{2/} Executive Decree, September 9, 1925.

^{3/} Executive Decree, May 19, 1934.

^{4/} Except scrap iron and scrap metals, the exportation of which was prohibited. Goods mentioned in Brazilian export statistics were lard; preserved, frozen, and chilled meat; hides and skins; wool; tallow; jerked beef; manganese ore; cotton; rice; sugar; rubber; cocoa; coffee; carnauba wax; bran; manioc meal; oranges; fruit; nuts; oleaginous seeds; tobacco; mate; lumber; and precious stones.

^{5/} Executive decree, June 20, 1934; amended by Executive decree June 28, 1934.

was very large, and, although the trade in most of them was small, the aggregate was very considerable. In September 1934, exchange derived from all exports other than coffee became free from control.^{1/} Exporters of coffee were required to sell to the Bank at the official rate approximately 83 percent of the value of their export bills (155 gold francs per bag of coffee exported); the remainder could be sold in the free market. After the adoption of this measure, nearly half the Brazilian exports benefited from the higher rates of exchange in the free market. At the same time, the Bank announced that thereafter it would supply 60 percent of the cover for approved imports at the official rate; importers were required to obtain the remainder in the free market. Exchange available at the official rate was allocated in accordance with the following order of priority: Raw materials, basic necessities, and nonessentials. This system was modified in December 1934, after which exchange available to importers at the official rate (60 percent) was distributed by giving preference to countries in accordance with the size of their imports of Brazilian coffee.

In February 1935 the Government attempted to establish a free exchange market for both imports and exports.^{2/} All exporters were permitted to sell their bills to licensed banks at the prevailing rates. Banks were required to deliver 35 percent of the foreign exchange thus acquired to the Bank of Brazil at the official rate. These funds were available only to the Government or for the service of frozen debts. The remainder (65 percent) constituted the source of free exchange; cover for all imports could be obtained in this market. To protect the free market, all debts arising from the importation of goods before February 11, 1935, were frozen, pending their liquidation; funds for this purpose were to be provided from the 35 percent retained by the Government.

The Brazilian exchange position, however, had not recovered sufficiently to permit the contemplated degree of freedom from control. Before the middle of 1935 a shortage of exchange developed, and the Bank extended its control over the nominally free market; all purchases of exchange in this market became subject to the approval of the Bank; importers were required to secure exchange permits from the Fiscalization Department (Fiscalização Bancária).

From time to time thereafter the Bank of Brazil endeavored to promote the exportation of various products by according partial or complete exemption from the requirement that 35 percent of export bills be surrendered at the official rate. After February 13, 1936, the supervision of this program was undertaken by the Federal Foreign Trade Council, which determined both the nature and extent of the relief given.

At the end of 1937, after nearly 3 years of a relatively liberal exchange-control policy, the Bank of Brazil was again given a monopoly of foreign-exchange transactions. Various factors had contributed to an acute exchange situation: Exports of coffee had declined, the price of cotton had fallen, there had been a further reduction in the country's export balance during the latter part of 1937, the foreign-exchange value of the milreis had continued to fall, and there had been domestic political disturbances. In December 1937 exporters again were required to sell all exchange to the Bank at the official rate. Permits were required for all imports. Exchange acquired by the Bank was allocated in the following order of priority: Government requirements, merchandise imports, export freight charges, requirements of public utilities, dividends and profits, and other exchange obligations.^{3/} At the same time a tax of 3 percent was imposed on all exchange transactions; receipts from this tax were employed to establish an exchange-reserve fund.

^{1/} Executive decree, September 11, 1934.

^{2/} Executive decree, February 11, 1934.

^{3/} Executive Decree No. 97, December 23, 1937.

The present system of exchange control was inaugurated in April 1939,^{1/} at which time many restrictions in effect after 1937 were removed and free-market operations were again authorized. Exporters again are permitted to sell their bills in the free-exchange market, subject only to the provision that 30 percent of their value be sold to the Bank of Brazil. Banks, including the Bank of Brazil, are authorized to deal in both the free exchange market and the new "special free-exchange" market. Importers are required to secure prior authorization from the Bank to obtain exchange which must be purchased in the free market.

In accordance with the new regulations, three rates of exchange have been quoted in Brazil since 1939—free, official, and special free. The free rate (which averaged 19.706 milreis to the dollar during 1939, or \$0.05128), which is the effective rate for all exports and imports, is more or less sensitive to market conditions. Free exchange is derived principally from exports; exporters are required to obtain permits, which are issued only upon evidence of the sale of their bills to authorized banks. Banks purchasing free exchange must resell 30 percent to the Bank of Brazil at the official rate. Cover for all imports is obtained in this market, but only after authorization by the Bank. Exchange for remittances abroad, when similarly authorized, also is negotiated at the free-market rate.

The official exchange market is operated exclusively by the Bank of Brazil. Funds for its operation are derived entirely from the portion of exchange (30 percent) which banks are required to surrender at the official rate, and are available only to meet the foreign-exchange requirements of the Government. The official rate of exchange (16.50 milreis to the dollar, or \$0.0606) has not varied since April 1939.

Banks are also licensed to purchase and sell "special free" exchange. Funds for this market are obtained principally from tourists in the form of letters of credit, traveler's checks, and foreign paper currency, and may be sold only to persons authorized by the Bank of Brazil to purchase such exchange for travel or maintenance abroad. The special free rate (21.54 milreis to the dollar in 1939, or \$0.0454) ordinarily is considerably higher than the free rate.

The exchange tax, originally imposed in 1937, was modified in 1939, when the present system of exchange was adopted. The tax, amounting in 1937 to 3 percent of all exchange operations other than those for the account of the Government, had been altered in 1938 to 6 percent for most payments other than imports, and to 3 percent for those involving merchandise and freight.^{2/} Since 1939 the tax on all exchange operations, including those of the Government, has been 5 percent.^{3/} The tax has been employed in part to preserve exchange balances by discouraging imports, and, in part, to create a reserve fund to support exchange control operations.

Clearing and compensation agreements.

Exchange control in Brazil has been accompanied by special exchange arrangements under which the trade of Brazil with some countries was financed; these include clearing, payments, and compensation arrangements which have been introduced by bilateral agreements. A clearing agreement in its simplest form provides that the importers of each of the two contracting countries shall pay the cost of their imports from the other country into accounts in their own national currency maintained by agencies

^{1/} Executive Decree No. 1201, April 8, 1939, effective April 10, 1939.

^{2/} Executive Decree No. 485, June 9, 1938; see also Executive Decree No. 1170, March 23, 1939.

^{3/} Executive Decrees No. 1201, April 8, 1939, and No. 1394, June 29, 1939.

selected or established for that purpose. These funds are paid to those who have exported commodities from the country in question to the other. Thus, if payments to exporters in the trade between the two countries just equal the expenditures of the importers, no movement of foreign exchange is required. In payments agreements, the exchange usually is controlled in only one of the two countries; the other maintains a free-exchange market. The agreement consists of a commitment by the exchange controlling country as to the remittance of payments, under certain limitations, for imports and services from the other. The term compensation agreement is a somewhat looser one and has been applied at one time or another to virtually all arrangements which have tended to put the trade between two countries on the basis of a barter exchange of their products.

After October 1934, Brazil carried on trade with Germany under a compensation system. ^{1/} The original agreement expired in 1936; the arrangement was continued under a *modus vivendi*, but was discontinued by Brazil on December 12, 1939. Complete information on the terms of the Brazilian-German compensation agreement is not available. Apparently it provided for the deposit of the proceeds of designated Brazilian exports to Germany in special accounts (*sonderkonten*). Against these accounts Brazilian importers could draw to finance purchases of goods from Germany, as permitted by the elaborate German regulations governing this trade. The agreement was designated a compensation rather than a clearing agreement, because it differed from a clearing agreement in the strict sense, providing, as it did, for payments through special accounts, rather than through a single clearing account. Under the operation of this agreement, Brazilian imports from Germany more than doubled in value between 1934 and 1937. Exports to Germany in the same period increased by 58 percent. Brazilian exports to Germany in 1932 were greater than imports from that country; in later years, however, the balance was reversed.

It has generally been represented that clearing and similar agreements operate to balance the trade between pairs of countries. The failure of the Brazilian-German compensation agreement to do so may have been due to the fact that certain commodities entering the trade were not covered by the agreement. The compensation agreement may also have provided for certain transfers on nonmerchandise accounts.

Payments or compensation agreements with the Netherlands (1937) and Italy (1935 and 1940) were put into force by Executive action, and agreements with clearing provisions were concluded with Chile (1934 and 1940), France (1934), Norway (1935), Sweden (1935), Denmark (1935), the United Kingdom (1935), Portugal (1936), and Argentina (1939).

Standardization of export products.

Since 1940 the Government of Brazil has been particularly active in developing export standards to enhance the reputation of its products in foreign markets. Even before 1940 standards had been established for citrus fruits, bananas, cacao, and coffee. In 1938 an inspection and classification service was established for agricultural and livestock products and other prime materials. ^{2/} In 1939 the administration of this program was delegated to the Rural Economy Service (*Serviço de Economia Rural*), a branch of the Ministry of Agriculture, which was authorized to establish standards of classification and inspection and to organize essential administrative procedures. ^{3/} In 1940 the general regulations developed by the Rural Economy Service were published. ^{4/} Certificates

^{1/} For a description of the methods and policies of German foreign-trade control, see U. S. Tariff Commission, Foreign Trade and Exchange Controls in Germany, Report No. 150, 2d Ser., 1942.

^{2/} Executive Decree No. 334, March 15, 1938.

^{3/} Executive Decree No. 4440, July 26, 1939.

^{4/} Executive Decree No. 5739, May 29, 1940.

of inspection were required for exports of all commodities affected; the actual work of inspection and classification may be performed by the Rural Economy Service or by other agencies designated by the Government. Since May 1940 various decrees have established grading and inspection standards for a number of export products, including cotton, carnauba wax, citicica, livestock products, castor seed, flaxseed, cacao, pine, corn, fruits, tea, hides and skins, caroa, various fibers, quartz crystals, babassu nuts, potatoes, onions, tobacco, meat products, honey, licuri wax, and castor oil.

Coffee valorization and control programs.

For nearly 50 years the Government of Brazil has intervened intermittently in the coffee industry to alleviate conditions arising from market dislocations, overproduction, and competition from other areas. The economy of the country is peculiarly dependent upon the coffee trade; in recent years before the war nearly half^{1/} of the value of all exports was derived from this source. Brazil produces more coffee than all other areas combined; in recent years it has accounted for about three-fifths of the total world output of coffee.^{2/}

The coffee crop in Brazil is subject to frequent failures as a result of drought and frosts. Moreover, an abundant yield in one harvest is usually followed by a low yield in the next. The marked variations in production provide special motives for market control. Short-term fluctuations in supply, with their attendant repercussion on prices, give rise to longer-term cycles of production; periods of depressed prices discourage new plantings, whereas those of high prices lead to an expansion of cultivation. A number of years are required before new plantings mature. This tendency to cyclical production and to periodic market dislocation is intensified by the fact that so large a proportion of world production is concentrated in the State of São Paulo.

Early valorization schemes.—Until 1896 Brazil had enjoyed an expanding market for coffee, and in general planters had been prosperous. After that year, because of increased plantings, prices began to decline and there ensued a long period of intermittent "overproduction." The 1901-1902 crop of more than 16 million bags was the largest on record until that time, and prices dropped to their lowest level. The State of São Paulo prohibited new plantings. This law apparently was never enforced, but the low price of coffee tended to achieve the same result.

The first valorization (valorização) scheme was inaugurated in 1906. The State of São Paulo, with the aid of the National Government, withheld part of the output from the market; credit to finance these operations was obtained from foreign bankers. As a result, the State owned nearly 10 million bags of coffee by the end of 1908. Subsequently, when market conditions improved, these stocks were disposed of at a substantial profit. It is generally agreed that the first valorization program brought a definite measure of relief to growers. Moreover, it does not appear that the controlled price levels were sufficiently high to encourage undue expansion of plantings.

The second valorization scheme was adopted during World War I, when European markets were closed as a result of the blockade. Stocks accumulated and prices declined rapidly. The State of São Paulo, employing

^{1/} Nearly three-fourths between 1925 and 1930. Between 1939 and 1942 the share of coffee in total exports declined from 40 percent to 16 percent. It is estimated that in 1943 it was about 32 percent.

^{2/} Nearly three-fourths between 1900 and 1930.

funds borrowed from the Federal Government, purchased coffee and withheld it from the market; by the end of 1918 it had purchased nearly 5 million bags. Crop failures resulting from heavy frosts in 1918, however, reduced the harvest to little more than half the usual crop and Government stocks were again liquidated at a profit.

The third valorization program was undertaken in 1921 as a result of the post-war depression and the collapse of prices.^{1/} The crop of 1920-21 was somewhat larger than in previous years. In 1920, the Government of São Paulo purchased 300,000 bags. The Federal Government was induced to enter the coffee market in 1921; by the end of that year it had purchased nearly 5 million bags, or about one-third of the crop, representing the entire supply in excess of current exports. These operations were financed in part by the issue of paper currency and in part by a Sterling loan guaranteed by the Federal Government. Meanwhile, the Federal Government began to restrict entries of coffee at the port of Santos from the interior. No restrictions were imposed on new plantings. The success of the third valorization scheme was due in substantial degree to the smaller crops of 1921-23 and to the period of rising prices which followed; by 1924 the stocks withheld had been successfully liquidated.

In 1922, while the third valorization program was still operative, the Institute for the Permanent Defense of Coffee (Instituto de Defesa Permanente de Café) was organized by the Federal Government, but after a short period of operation, Federal support of the Institute was withdrawn. Two years later the Government of São Paulo created the São Paulo Institute for the Permanent Defense of Coffee (Instituto de Café do Estado de São Paulo) to carry out the original plans of the former Federal Institute.^{2/}

The new Institute, which was essentially a federation of planters, purchased warehouses and constructed others; restriction of entries into the Port of Santos was continued in a modified and more flexible form. Whenever the market showed a tendency to weaken, surplus stocks were purchased and withheld. Funds were obtained from a series of foreign loans and a transportation tax^{3/} on every bag of coffee moved from the interior. In 1927-28, seven producing States agreed to follow the São Paulo plan of regulating entries of coffee at ports of export. In October 1926 the Institute was reorganized to assure control by the State Ministry of Finance and to authorize the State Bank to make loans to growers.^{4/} A relatively high level of prices was maintained for several years, but to achieve this result it was necessary to hold large stocks continuously in storage. After the large crop in 1928, therefore, the program proved inadequate to prevent a serious price slump in 1929. A banking crisis was narrowly averted in 1930 by means of a 10-year foreign loan (20 million pounds sterling) secured, by 16 million bags of coffee, the Government guaranteeing not to accumulate any more coffee during the life of the loan.

The National Coffee Department.--In July 1930, the Federal Government again took over the coffee defense program. Because of the world-wide depression and also because of the large surplus coffee stocks (25 million bags), prices declined precipitously during 1930.^{5/} On April 24, 1931, the National Coffee Council (Conselho Nacional do Café) was created to function as an autonomous agency; it gradually assumed the powers formerly exercised by the São Paulo and other State institutes. In July 1931

^{1/} The New York price of Rio No. 7 had dropped from 22.83 cents in July 1919 to 6.44 cents in July 1921.

^{2/} State Law No. 2004, December 19, 1924.

^{3/} 1 gold milreis (55 cents) per bag.

^{4/} State Law No. 2144.

^{5/} The New York price of Rio No. 7 dropped from an average of 15.7 cents in 1929 to 6.2 cents in 1931.

the Federal Government began the outright purchase of all coffee stocks in São Paulo at prices somewhat above amounts already loaned to planters. About the same time the coffee destruction program was initiated. In 1931, 29 percent of the total crop was destroyed and in 1937, 71 percent.^{1/} In general, destruction was confined to lower grades of coffee. To finance operations, a tax of 20 percent in kind was levied on all producers; this was soon replaced, however, by an export tax of 10 shillings per bag.^{2/} A virtual ban was placed on all new plantings by means of a prohibitive tax.

In February 1933, following a further decline in prices, the National Coffee Department (Departamento Nacional do Café) was created; it assumed control of all coffee institutes and associations in Brazil. The DNC established a system of "sacrifice quotas." The annual crop was divided into three parts: 30 percent for port entries; 30 percent for retention in interior warehouses; and 40 percent for destruction (sacrifice quota). That portion held in the interior was not released until port-of-entry quotas were filled.

Between 1924 and 1937 Brazilian valorization schemes appear to have had two somewhat conflicting results. Over periods of short duration and temporary emergency, production and price controls were effective in bringing stability. Over the longer period, however, controlled prices encouraged growers to increase plantings, inasmuch as market controls were not ordinarily accompanied by effective production controls. This ultimately led to new problems of surplus production.

Brazilian valorization schemes have, in effect, operated as a subsidy to producers in competing coffee-producing countries. As a result, both the relative and the absolute foreign-market position of Brazil has suffered. Between 1924 and 1937 the annual average quantity of coffee exported from Brazil declined slightly, although total world exports and consumption increased. Brazil's exports declined from about 60 percent of the world total before 1924 to about 50 percent in 1936-37.^{3/} Because of the stimulus given to production in countries growing mild types of coffee and because of apparent shifts of consumer preference to those types, it is doubtful if this loss can be recouped. Moreover, the program of price maintenance was an obstacle to expansion of world coffee consumption. It also had an adverse effect on agricultural diversification in Brazil.

A marked change in the coffee defense policy was made in 1937.^{4/} Notwithstanding the program undertaken by the DNC, prices of coffee had remained at low levels, with only slight improvement in 1936 and 1937. Brazil had endeavored unsuccessfully in 1931 and 1936 to obtain an agreement with other coffee-producing countries for an international program of control.^{5/} A similar attempt at the Second Pan-American Coffee Congress, meeting in Habana in August 1937, had been equally unsuccessful. Because of the loss of foreign markets, Brazil decided to abandon the price-defense policy in favor of "free competition." The effects

^{1/} Between 1931 and 1944, more than 78 million bags were destroyed, or nearly three times the recent annual production of Brazil and five times the annual consumption of the United States.

^{2/} This tax, combined with a tax of 5 shillings, assessed to service the 20-million pound loan, was reduced to 12 milreis in 1937.

^{3/} Because of the coffee-destruction program Brazilian production figures are somewhat higher, amounting to about 65 percent of total world production before 1924 and to 60 percent in 1936-37.

^{4/} Executive Decree No. 2131, November 13, 1937.

^{5/} The International Coffee Congress held at São Paulo in 1931 and the First Pan-American Coffee Conference held at Bogotá in 1936.

of the new policy were immediate; coffee prices declined and Brazilian exports increased from 12 million bags in 1937 to 17 million in 1938. At the outbreak of the war in 1939, the coffee situation in Brazil had materially improved, marketable stocks having been greatly reduced. When this change of policy became effective, the export tax was reduced from 45 to 12 milreis per bag, and exportation of lower grades of coffee was permitted. The coffee destruction program and the sacrifice quotas, however, were continued. The National Coffee Department continued to exercise control over the Brazilian coffee industry, but its activities thereafter were designed to protect the long-run position of the industry rather than to support and stabilize prices.

The marketing ("defesa") institutes.

Since the depression of 1929, the control pattern established in the coffee industry has been extended by Brazil to other industries. Regulatory agencies, commonly referred to as "defesa" institutes, have been established for such products as cacao, mate, sugar, tobacco, rice, and meats. The decrees governing these organizations ordinarily extend to the industries something approaching a public utility type of regulation, although they leave to the representatives of the industries themselves considerable latitude in the formulation of the controls instituted. Governmental authority is employed to supervise, enforce, or veto the regulatory measures. The objectives of "defesa" institute policy have been varied, but they usually are designed to "rationalize" the industry by prorationing and valorization measures. They have used their authority to maintain prices both to stabilize markets and to obtain for the producers an element of monopoly income in domestic or foreign markets. The institutes have also been influential in improving marketing and grading standards, in developing new markets, and in improving methods of production.

The development of these institutes has been fostered by the Government as part of a general program to organize Brazilian industry somewhat along the lines of the "corporate state" in various European countries.^{1/} In 1937 the new Brazilian Constitution created the National Economic Council,^{2/} whose duty it is to promote "corporative organization of the national economy" and to assist in the establishment of professional associations, syndicates, and research institutes "to rationalize the organization and administration of agriculture and economy."

The National Mate Institute.—Since 1938 the National Mate Institute (Instituto Nacional do Mate) has exercised supervisory and promotional powers over the mate industry. Production in Brazil is confined to the four southern States of Santa Catharina, Paraná, Matto Grosso, and Rio Grande do Sul; the industry depends chiefly on exports, principally to Argentina. Early efforts to organize the trade were made in the States of Santa Catharina and Paraná, where local institutes were established. In 1927 the Instituto do Mate was created in Santa Catharina.^{3/} Soon thereafter a similar agency, the Instituto do Mate de Paraná, was created in Paraná.^{4/} Both of these institutes undertook to promote improved methods of production, to develop quality standards, and to cooperate with the States in the enforcement of laws regulating the industry.

^{1/} Italy, Germany, Austria, and Portugal; for a description of the organization of the corporate state as it functioned in Italy, see U. S. Tariff Commission, Italian Commercial Policy and Foreign Trade, Washington, 1941; pp. 10-17.

^{2/} Articles 57 to 63, inclusive, Constitution of 1937.

^{3/} State Decree No. 54, December 2, 1927.

^{4/} State Decree No. 2559, April 2, 1938.

In July 1931 a congress composed of representatives from the four mate-producing States, assembled at Curitiba; this conference recommended the organization of a National Mate Institute to replace the two local agencies. This was done in October 1938. ^{1/} The Institute is composed of representatives of the Governments of the four producing States and of persons engaged in the production, marketing, and exportation of mate. The regional institutes in Paraná and Santa Catharina continue to function. The Institute has exercised broad powers by establishing production and export quotas, by fixing prices for producers and exporters, and by developing export standards. A federal export tax of 50 reis per kilogram provides funds for its operations.

The Cacao Institute of Bahia.—This Institute (Instituto do Cacao da Bahia) was organized in 1931. ^{2/} Brazil, the chief cacao-producing country of Latin America and the second-most-important in the world, ^{3/} ordinarily accounts for more than 10 percent of total world production and for more than half of the Latin American total. Cacao ranks third among Brazil's export products. More than 90 percent of Brazilian production is concentrated in the State of Bahia. The Institute was established principally to promote improved methods of marketing and production and to develop export standards. When created, it was described as a cooperative society. Although its capital stock is owned by producers, its operations are subject to extensive control by the State. Funds have been obtained from loans by the Bank of Brazil and the Federal Bank of Economics (Caixa Econômica Federal) and from a State export tax of 2½ milreis per bag of cacao.

The Cacao Institute is credited with having been quite effective in developing the industry; Brazil has enjoyed an increasing share of an expanding world market. The Institute has constructed warehouses, built roads, rendered financial assistance to planters, and organized research and experimental projects. It has sought to develop markets for the Brazilian product and to regulate cultivation, grading, and marketing. For many years the Institute has engaged directly in both the buying and selling of cacao. It has entered the market to "stabilize" prices and prevent speculation; at times it has attempted to support prices by making purchases above the prevailing level. ^{4/} For a number of years the Institute has been the second-most-important concern in the export of cacao, accounting for nearly one-third of total Brazilian exports.

The Sugar and Alcohol Institute.—Brazil ordinarily is the seventh largest sugar-producing country in the world; production, however, is almost entirely for domestic consumption. The period of high prices before 1929 had resulted in an expansion of Brazilian production facilities; with the depression, surplus stocks began to accumulate and prices declined precipitously, falling nearly 50 percent in 2 years. The resulting distress evoked numerous pleas for Government intervention. Valorization and proration schemes seemed attractive to the producers of sugar.

In February 1931 the Federal Government decreed that a specified proportion of alcohol distilled from sugar be mixed with all imported gasoline. In September 1931 producers were required to deposit 10 percent of the product of their mills in Government-designated warehouses. ^{5/} These stocks were employed by the Government to stabilize price levels by releasing them on the domestic market if the price of sugar rose above

^{1/} Executive Decree No. 375, April 13, 1938; see also Executive Decree No. 3128, October 5, 1938.

^{2/} State Decree No. 7430, June 8, 1931.

^{3/} The Gold Coast of Africa ranks first.

^{4/} It is reported to have incurred heavy losses from such operations in 1936.

^{5/} Executive Decree No. 20401, September 15, 1931.

45 milreis per bag^{1/} or by selling them on the foreign market if it fell below 39 milreis. In December 1931 this program was broadened and its administration delegated to the newly established Commission for the Defense of Sugar Production (Commissao de Defesa de Producao do Açúcar).^{2/} This agency attempted to reduce accumulated sugar stocks, to stabilize the price structure, and to alleviate distress among producers. It was authorized to fix wholesale prices,^{3/} to assign production quotas to sugar mills, and to purchase and export surplus stocks. This program was financed by a tax of 3 milreis per bag of sugar produced by the mills. In August 1932, the Commission for the Study of Motor Alcohol was created to study and recommend additional measures for relief of the sugar industry. In November the annual output of each sugar mill was limited to its average production during the preceding 5 years;^{4/} the Sugar Commission was authorized to confiscate all stocks in excess of these limits.

In June 1933 these two commissions were combined into a single agency, the Sugar and Alcohol Institute (Instituto do Açúcar e do Alcool).^{5/} The Institute is composed of delegates appointed by the Federal Government and by the sugar-producing States, together with others who represent producers. The latter ordinarily exercise effective control over the Institute's policy. The tax of 3 milreis per bag was continued.

The Sugar and Alcohol Institute has broad powers over the sugar industry, including the right to make loans to producers, to limit production, to fix prices, and to determine the percentage of alcohol to be mixed with gasoline. Its controls include limitation of the areas which may be converted to sugar cultivation, determination of the number of days mills may operate, and establishment of quotas for States and individual mills. To provide a market for surplus stocks the Institute has constructed large distilleries for the production of anhydrous alcohol. Domestic prices established by the Institute usually average from 15 to 20 percent above those prevailing in the free market. To support the domestic market the Institute has engaged in buying and selling activities, ordinarily selling its surplus stocks in foreign markets. Annual export quotas have been established for these stocks; producers have frequently been paid prices for export sugar below the pegged domestic price. Such exports are commonly referred to as sacrifice quotas. Largely because of this program the domestic price for sugar was raised nearly 20 percent by 1934,^{6/} after which it remained quite stable. It appears that, in general, the Institute has favored a policy of moderate prices; its program has not led to an uncontrolled expansion of production. The percentage of alcohol which distributors must mix with gasoline has been altered from time to time; in 1938 this requirement was extended to gasoline refined in Brazil as well as to imports.^{7/} The production of anhydrous alcohol for this purpose has been substantially increased.

The Rice Institute of Rio Grande do Sul.—Brazil ordinarily ranks among the 10 leading rice-producing countries of the world, being surpassed only by Asiatic countries. Most of the Brazilian output is for domestic consumption; since 1915, however, increasing quantities have been available for export. Government intervention in the rice industry dates back at least to 1926, with the creation of the Rice Syndicate of Rio Grande do Sul (Sindicato Arrozeiro do Rio Grande do Sul). Because of the very low price levels prevailing at that time, valorization measures

^{1/} Price quoted on the Rio de Janeiro Market per bag (60 kilograms) of white crystal sugar.

^{2/} Executive Decree No. 20761, December 7, 1931.

^{3/} Fixed in 1932 at 42 milreis per bag.

^{4/} Executive Decree No. 22152, November 28, 1932.

^{5/} Executive Decree No. 22789, June 1, 1933.

^{6/} To about 48 milreis per bag.

^{7/} Executive Decree No. 737, September 23, 1938.

were undertaken. In 1936 the Syndicate was replaced by the Rice Institute of Rio Grande do Sul (Instituto do Arroz do Rio Grande do Sul).^{1/} The governing board of this organization, which was officially recognized by the State Government^{2/} May 1938, is composed of growers, merchants, and processors, as well as of representatives of the State Government. The functions of the Institute are principally concerned with the expansion of the industry. It is authorized, however, to rationalize the domestic market for rice and to determine the proportion of domestic production to be exported at "sacrifice" quotas. The Institute periodically fixes the minimum prices paid to growers, exercises control over the marketing of rice to other Brazilian States and to foreign markets, extends credit facilities to growers, operates an experiment station, and provides various statistical services to the industry. Its operations are financed by an export tax on rice.

Other institutes.—Institutes have been established from time to time for other agricultural industries. Among these are the tobacco and meat institutes. The Tobacco Institute of Bahia (Instituto de Duma) was created in 1935 by a decree of the State Government of Bahia.^{3/} Like similar agencies, it exercises supervisory, promotional, and regulative functions. The Meat Institute of Rio Grande do Sul (Instituto Sul Rio Grandense de Carnes), established in 1934,^{4/} was constituted as an independent semiofficial organization; in effect, however, it has functioned as an official agency of the State. Its board of directors is chosen from representatives of the livestock industry and its president is appointed by the State Government. This agency, which is reported to have been quite influential in promoting the Brazilian meat industry, is authorized to undertake studies to improve production methods and facilities, to construct refrigeration and processing plants, to encourage the organization of cooperatives, to extend assistance to breeders, to organize statistical services, and to develop export markets.^{5/}

The National Petroleum Council.

By the provisions of the Brazilian Constitution and the Mining Code of 1934, oil exploration and other mining concessions could be granted only to national enterprises. The Constitution of 1937 added the further requirement that the companies, as well as their stockholders, be Brazilian. In April 1938 the new Mining Code declared all subsoil deposits of petroleum and natural gas to be the property of the national Government.^{6/} In the same year, the Brazilian petroleum industry was declared to be a public utility subject to regulation by the National Petroleum Council (Conselho Nacional de Petróleo).

^{1/} Reorganized in 1940 as the Instituto Rio Grandense do Arroz; see the section on new "defesa" institutes.

^{2/} State Government Decrees Nos. 7220, April 13, 1938; 7296, May 31, 1938; and 7783, May 2, 1939.

^{3/} State Government Decree No. 3409, March 3, 1935.

^{4/} State Government Decree, July 14, 1943.

^{5/} A lard institute existed in the State of Rio Grande do Sul for a short period during 1937. This agency was preceded by the Lard Syndicate (Sindicato da Banha) during the period between 1929 and 1936. The syndicate was an official agency of the State, organized to develop and to exercise control over the pork and lard industry. In January 1937 it was reorganized as the Rio Grande do Sul Lard Institute (Instituto Sul Rio Grandense de Banha). The powers of the new agency were broader than those of the one it replaced; it was authorized to establish experiment stations, to extend credit facilities to breeders, to develop standards for lard products, to initiate measures to increase production, and to develop foreign markets. This institute appears to have been disbanded late in 1937.

^{6/} Executive Decree No. 366, April 11, 1938. No important commercial deposits of petroleum had been discovered up to that time.

The National Petroleum Council functions as a semi-autonomous Government agency responsible directly to the President of the Republic; its members are chosen principally from the administrative branches of the Government, but include two representatives of the petroleum industry.^{1/} Since 1938 all aspects of the petroleum industry, including importation, exportation, transportation, and marketing, have been subject to regulation by the Council. The operation of petroleum refineries is restricted to companies owned and directed exclusively by Brazilians. Authorization must be secured from the Council to engage in any important phase of petroleum production. Both importers and distributors have been required to maintain stocks of the principal petroleum products equivalent to 15 percent of their importations or sales during the previous year. The comprehensive powers of the Council include supervision of the financial, accounting, producing, and marketing activities of the companies; it is authorized to establish production quotas, regulate imports, and fix prices. In addition to its regulatory activities the Council has taken an active part in the development of Brazilian petroleum resources. In 1939 it initiated a program of exploration and drilling; limited production has been developed, particularly in the State of Bahia.^{2/}

Economic Controls and Commercial Policy Since the Outbreak of the War

The essential features of the system of economic controls employed in Brazil before 1940 have been retained since that time; new controls have been imposed largely in response to conditions created by the war. The outstanding change has been the creation of the Office of the Coordinator of Economic Mobilization, with extensive powers over virtually the entire economic life of the country. This agency has been particularly active in mobilizing national resources for defense, in rationing the distribution of essential commodities, and in attempting to control prices. The Government has participated directly in the industrial life of the country by becoming a major producer of steel; with the inauguration of the Government-owned Volta Redonda project, Brazil will soon become the chief steel-producing country of Latin America. Other wartime measures include projects to increase the production of strategic raw materials, export and reexport controls to conserve existing stocks and to block the flow of essential commodities to enemy nations, and the freezing of Axis funds.

The Customs Tariff of 1940.

In recent years, the Brazilian tariff structure has been one of the most stable in South America; changes in the basic rates of duty have been infrequent. The new customs tariff, published late in 1940, primarily represents a consolidation and reprinting of the former schedule with the changes made since 1934.^{3/} An important characteristic of the Tariff of 1940 is the formal inclusion of a third column designating the reduced rates of duty fixed in commercial agreements with the United States and other countries; these duties apply to specified products from countries to which Brazil grants unconditional most-favored-nation treatment.

There have been a limited number of changes in tariff rates since the publication of the new schedule. In April 1941 an additional tax was imposed on all merchandise imported into Brazil by water,^{4/} except petro-

^{1/} Executive Decree No. 395, of April 29, 1938, provided for the creation of the Council; Executive Decree No. 538 of July 7, 1938, defined its organization and duties.

^{2/} See U. S. Tariff Commission, Mining and Manufacturing Industries in Brazil, 1945 [processed].

^{3/} Executive Decree No. 2878, December 18, 1940.

^{4/} Executive Decree No. 3100, March 3, 1941; revised by Executive Decree No. 3595, September 9, 1941.

leum and its products. This tax, amounting to 1.2 milreis per gross metric ton or per cubic meter, depending upon the unit on which freight is paid, is levied to help finance the activities of the newly organized Brazilian Maritime Commission. The rates of duty for a few important industrial materials have been lowered, including those on wire fencing and certain electrical insulating materials; the duty on electric motors has been increased. The practice of granting temporary duty-free status to essential materials has been employed on a number of occasions either to foster new industries or to alleviate shortages of consumer goods; imports recently accorded this privilege include supplies for public construction and for the National Steel Co., binder twine, cement, salt, and butter. The policy established by the "Law of Similars," whereby the privilege of special exemptions and reductions of import duties was restricted to goods not considered to be similar to those of domestic manufacture, has been continued. Supplementary lists published from time to time have designated an ever-increasing number of articles of domestic manufacture which are entitled to this protection.^{2/} Recent additions include cotton-processing machinery, cardboard and paper manufactures, electrical meters and transformers, bicarbonate of soda, and manila rope.

Modification of export duties.

The most noteworthy change in the Brazilian system of export duties since 1940 has been the elimination of those imposed on commodities entering interstate commerce.^{2/} This policy, established by the Constitution of 1937, became effective March 31, 1943; States continue, however, to tax exports to foreign countries. The Federal Government, on the other hand, has made increasing use of export taxes. In 1940 a tax of 10 cruzeiros per ton was levied on exports of salt to finance the new National Salt Institute.^{3/} In 1941 a tax of 10 percent ad valorem was placed on exports of quartz crystals; the revenues from this tax are employed to finance a program for establishing grading and classification standards for the product.^{4/} In the same year a general tax of 1.2 cruzeiros per gross ton or cubic meter (depending upon the unit on which freight is paid) was imposed on all exports of merchandise in order to provide funds for the newly organized Brazilian Maritime Commission.^{5/} In 1942 a federal export tax was established for skins and feathers of wild game. In 1943 a tax, amounting to 1 cruzeiro per box, was levied on exports of fruit to provide funds for the new Executive Commission for the Fruit Industry.^{6/}

Exchange control since 1940.

Exchange operations in Brazil are still subject to the regulations imposed in 1939; ^{7/} the improved exchange position of the country, however, has permitted a more liberal application of the rules in force. The war has had two marked effects upon the exchange position of Brazil. The immediate effect was an exchange shortage necessitating a stricter application of the regulations. More recently, however, the situation

^{1/} See, for example, Circulars by the Ministry of Finance No. 18, *Diario Oficial*, May 15, 1940; No. 2, February 19, 1942; No. 4, March 19, 1942; and No. 38, August 12, 1942; also Executive Decree No. 3011, January 31, 1941.

^{2/} See the section on export duties.

^{3/} Executive Decree No. 2300, June 10, 1940.

^{4/} Executive Decree No. 3076, February 26, 1941.

^{5/} Executive Decree No. 3100, March 3, 1941; revised by Executive Decree No. 3595, September 9, 1941.

^{6/} Executive Decree No. 5032, December 4, 1942; see the section on the Executive Commission for the Fruit Industry.

^{7/} See the previous section on exchange control.

has been reversed. Late in 1939, following the outbreak of war, Brazilian banks experienced heavy withdrawals, principally from European quarters. To prevent an exchange crisis, an official bank holiday was declared from September 1 to September 4, inclusive. When the banks reopened they were permitted to sell exchange only at rates determined by the Central Bank. During the early months of 1940 a shortage of exchange resulting from the loss of European markets required rather close supervision of exchange operations, but toward the close of the year there was generally sufficient cover for commercial requirements. Throughout 1941, 1942, and 1943, the exchange position of Brazil continued to improve. The reduction of imports resulting from shipping restrictions and wartime export controls in other countries, together with an increase in the quantity and unit prices of exports, have combined to supply ample exchange for all requirements. ^{1/}

Recent commercial agreements.

Since 1939 Brazil has concluded unconditional most-favored-nation agreements with the following countries: Australia (1940), Italy (1940), Argentina (1940), Venezuela (1940), Canada (1941), Chile (1941 and 1943), and Paraguay (1943). ^{2/} Those with Australia and Paraguay are new agreements; the others either continue or modify guarantees previously in force. Exception to most-favored-nation treatment is generally provided in these agreements for concessions granted by either country to facilitate border trade or for concessions resulting from a customs union with a neighboring country.

The revised commercial agreement between Brazil and Chile of March 1, 1943, also provided for the exchange of numerous concessions. A permanent mixed commission was created to undertake studies and to submit recommendations for developing trade between the two countries. In November 1941 a sanitary convention between Brazil and Chile was negotiated to facilitate the commercial interchange of vegetable products. The new commercial agreement with Paraguay provided for the exchange of unconditional and unlimited most-favored-nation treatment in all matters affecting trade except concessions to contiguous countries. This treaty was drawn up by a mixed commission created for that purpose in 1941; at that time it was agreed to construct a railroad between the two countries, to develop inland waterways, and to initiate other programs to facilitate trade between the two countries. ^{3/} A commercial agreement with Argentina, concluded in 1941, is designed to eliminate certain restrictive trade practices between the two countries and to promote the exchange of surplus commodities. To facilitate trade between the two countries a bilateral clearing arrangement was inaugurated.

Further coffee-control measures.

The war has been particularly disturbing to the world trade in coffee; because of the greater proximity of other producing countries to available markets the Brazilian position has been relatively more acute. Soon after the outbreak of the war, European markets were closed and shortages of shipping curtailed exports to other major consuming areas. The National Coffee Department has continued to function in the interests of

^{1/} On November 1, 1942, the Brazilian monetary unit, the milreis, was renamed the cruzeiro. Since that time exchange rates have been quoted in cruzeiros. (Executive Decree No. 4791, October 6, 1942.)

^{2/} Effective dates, except for the Paraguayan Agreement, in which case the date of signature is given.

^{3/} Effective August 2, 1941; 10 conventions were concluded at that time providing for cultural, economic, and commercial cooperation between the two countries.

Brasilian producers. Its purchase program has been limited to "equilibrium quotas,"^{1/} by means of which it has attempted to maintain "statistical equilibrium between export possibilities and the quantity to be released on the market." Coffee committed to destruction has been taken from these stocks, which are delivered to the DNC at a nominal price. In June 1941 the general "equilibrium" quota for most States of Brazil was fixed at 25 percent of their output. The quota, which occasionally was altered after that time, was abandoned in October 1943. At the regular coffee convention held at Rio de Janeiro in May 1943, the life of the DNC was extended to June 30, 1946.

The Inter-American Coffee Agreement.—Because of the demoralization of their markets for coffee and the accumulation of surplus stocks, Brazil and the other coffee-producing countries of the Western Hemisphere, together with the United States, signed the Inter-American Coffee Agreement in 1940.^{2/} The adoption of a program to cope with the problem of surpluses had been recommended by the Foreign Ministers of the American Republics at Habana earlier in that year.^{3/} This was not only the first international control agreement affecting coffee, but was also the first international commodity agreement in which a major consuming country that was not also a producer played an important role.

The announced purpose of the agreement is to promote the orderly marketing of coffee and to assure terms of trade equitable to both producers and consumers, by adjusting supply to demand. Markets were allocated among the 14 American producing countries. In effect, four basic annual quotas were adopted: (1) an export quota for each producing country signatory to the agreement, regulating shipments to the United States; (2) an export quota for each producing country, controlling shipments to all other regions; (3) an import-quota system, controlling the quantity of coffee that might be received in the United States from each Latin American producing country; and (4) a much smaller aggregate quota for United States imports from sources other than the American Republics.

The agreement provided for an Inter-American Coffee Board, which has the responsibility of establishing the annual quotas. Except in an emergency, increases or decreases may not be made more often than once in 6 months, and no change may exceed 5 percent of the basic quotas at any given time. Each signatory country is represented on the Board; the United States controls 12 of the 36 votes; Brazil, 9; and Colombia, 3. The other 12 countries have 1 vote each.^{4/}

In the original 1940-41 allocation, Brazil's annual quota for exports to the United States was set at 9.3 million bags of 60 kilograms each; that for markets outside the United States was 7.5 million bags. This division allotted to Brazil about 60 percent of total coffee exports from the producing countries to the United States. Because of the critical shipping situation, quotas for all producing countries have, on several occasions, been increased to facilitate the movement of coffee, in such quantities as shipping facilities would permit, from countries geographically closest to the United States. The Inter-American Coffee Board fixed Brazil's quota to the United States at 13.8 million bags in 1941-42,

^{1/} Formerly called, and as yet frequently referred to, as sacrifice quotas.

^{2/} Signed on November 28, 1940; approved by the Brazilian Government on January 17, 1941 (Executive Decree No. 2956). On May 12, 1943, the life of the agreement was officially prolonged for an additional year, until September 30, 1944.

^{3/} Meeting of the Foreign Ministers of the American Republics, Habana, 1940, Resolution No. 25.

^{4/} The United States controls one-third of the votes of the Inter-American Coffee Board. The consumer in the United States is protected from unwarranted price increases by a provision in the agreement that, in the event of an "imminent shortage," imports may be increased beyond the established quota by a one-third vote of the Board. (Article 8.)

at 16.4 million in 1942-43, and at 10.3 million bags in 1943-44. Because of its geographic position and the shipping shortage, Brazil has had difficulty in filling its allotments.

In July 1941 Brazil, following the lead of Colombia, inaugurated a system of minimum export prices for coffee; the resultant price increases led the Inter-American Coffee Board to increase 1941-42 import quotas for the United States first to 105 percent and then to 125 percent of the basic quotas. The latter modification was made on August 11, 1941, by invoking the "emergency" feature of the Coffee Agreement in the interest of consumers in the United States.^{1/}

Although there is no provision in the Coffee Agreement for direct price control, the Board through its control of the quantity of exports, has influenced prices. Since 1940 price movements have generally been upward; the index of prices for leading types of Brazilian coffee in New York rose from an average of 80 in 1940 (1935-39 = 100) to 182 in June 1942. Not all of this increase, however, is attributable to the quota controls. It reflected also a recovery from the distressed prices of early 1940, the effect of the minimum export price controls instituted by Brazil and other countries under the protection of the quotas, pressure to increase dealers inventories, and shortages of supply owing to the shipping situation. The short period during which the Coffee Board has been in operation, and the abnormal conditions under which it has functioned make it difficult to appraise the effects of its policies on prices.^{2/} There seems to be little question that the Agreement has brought tangible benefits to coffee growers, both by stabilizing what otherwise might have been a demoralized market and by effecting an upward revision of prices. Some critics have argued, however, that such stabilization has been achieved at too great a cost to consumers.

Since 1940 a number of factors have combined to improve the Brazilian coffee situation; the problem of market surpluses is reported to have disappeared. Because of the shipping situation, the Commodity Credit Corporation of the United States agreed in October 1942 to purchase or underwrite that part of the Brazilian quota which might remain unshipped at the end of the quota year.^{3/} Since then, moderate improvement of the shipping situation has aided somewhat. Most important, however, has been a series of crop failures which drastically reduced supplies. A prolonged drought in 1940-41, described as one of the most severe the region has suffered, reduced the crop in São Paulo to less than one-third of the usual harvest. Frosts late in June and early in July 1942, the worst since 1918, reduced that year's crop by about one-half; frosts during 1943 are reported to have damaged about 10 percent of the trees. As a result, for the first time in many years, the supply situation was no longer acute. Sacrifice (equilibrium) quotas are no longer required of producers, and the destruction program has been abandoned, at least temporarily.^{4/}

New marketing institutes and commissions.

The trend toward the organization and regulation of various industries by commissions and councils composed of representatives of the industries and of the Government has continued since 1940. The mate, sugar, cacao, and tobacco institutes have been reorganized, and new agencies have been created for the salt, pine lumber, fruit, fish, and

^{1/} Article 8.

^{2/} Ceiling prices for various grades of coffee in the United States were established by the Office of Price Administration after December 8, 1941.

^{3/} See the section on commodity agreements.

^{4/} Executive Decree No. 5874, October 2, 1943.

manioc industries. In 1943 the National Mate Institute was placed under the jurisdiction of the Ministry of Agriculture,^{1/} and the Cacao Institute of Bahia was given national status by an order requiring all planters to deliver to it their 1943-44 crop.^{2/} This action is said to have been taken to extend federal control over marketing practices and to relieve planters from domination by exporters. At about the same time the Cacao Institute was extended credit by the Bank of Brazil for the construction and expansion of warehouses and processing plants and for financing its marketing activities.

Since the beginning of the war, the Sugar and Alcohol Institute has been given new responsibilities. In addition to production control and price maintenance, the Institute has been given complete authority over the exportation of sugar.^{3/} Moreover, it now directs the wartime rationing of alcohol. The Tobacco Institute has been given the right to exercise a monopoly of tobacco exports.^{4/} In June 1940, the Rice Institute was reorganized and given national status under a slightly changed name, Instituto Rio Grandense do Arroz.^{5/} The Institute is authorized to "establish equilibrium between production and consumption." The principal effect of the reorganization is to give control of the Institute to growers, and indirectly to the State Government, rather than to millers and merchants.

The National Salt Institute.—The National Salt Institute (Instituto Nacional do Sal) was organized in 1940 to control production and to prevent excessive competition.^{6/} The Institute has established production quotas and has fixed prices for both producers and consumers. It is authorized to determine the proportion of domestic salt that importers would be required to purchase; it may guarantee prices to producers, purchase salt on its own account, and construct warehouses. Funds for the Institute's program are derived from an export tax on salt of 10 cruzeiros per ton.

The National Pine Institute.—Marketing difficulties resulting from the war led to the establishment of the National Pine Institute (Instituto Nacional do Pinho) in March 1941.^{7/} Pine products constitute more than half of Brazil's exports of timber. For some time before the organization of the Pine Institute, the Pine Wood Control, attached to the National Economic Defense Commission, established regulatory measures for the industry; minimum prices were fixed, production was limited to 70 percent of ordinary capacity, export quotas were established, and grading standards were developed. The new Pine Institute took over these functions. Its work is both regulatory and promotional. It is authorized to develop domestic and foreign markets, promote reforestation, extend credit to producers, construct warehouses, sawmills, and other facilities, require registration of all producers, and develop statistical and information services.

^{1/} Executive Decree No. 3937 of December 13, 1941, placed the Institute under the Ministry of Labor, Commerce, and Industry, whereas Executive Decree No. 5740 of August 13, 1943, transferred it to the Ministry of Agriculture.

^{2/} Executive Decree No. 5513, May 24, 1943.

^{3/} Executive Decree No. 1831, December 4, 1939.

^{4/} Order of the Coordinator of Economic Mobilization, No. 418, July 16, 1943.

^{5/} State Decree No. 20, June 20, 1940.

^{6/} Executive Decree No. 2300, June 10, 1940.

^{7/} Executive Decree No. 3124, March 19, 1941.

The Executive Commission for the Fruit Industry.--This Commission, created in December 1942, ^{1/} and attached to the Ministry of Agriculture, is composed of representatives from each of the larger producing States and others appointed by the Government. The Commission has been an active force in the fruit industry, particularly with respect to citrus fruits. It may fix prices paid to producers, and may enter the market to buy and sell on its own account. During 1943 it was authorized to assume complete control of the purchase and sale of that year's crop. Funds for the Commission's operations are derived principally from credits by the Bank of Brazil and from what is, in effect, an export tax on fruit products.

The Executive Commission for Mandioca Products.--This Commission (Comissao Executiva dos Produtos de Mandioca) was created in December 1942. ^{2/} It functions under the Ministry of Agriculture, and consists of representatives appointed by the Executive from the milling industry, the producing regions, and the Government. Its principal functions are developmental, but it also possesses broad powers over the trade. It is authorized to expropriate installations, if necessary, rationalize the industry, control the production and marketing of manioc; provide credit facilities to producers; organize and, in effect, control producer cooperatives; and engage in research and experimentation. The Commission's activities are financed by a tax of 10 percent on the sale of manioc products.

The Executive Commission for the Fishing Industry.--This Commission (Comissao Executiva da Pesca), organized late in 1942, ^{3/} operates under the Ministry of Agriculture, and is composed of representatives selected by the industry itself and others appointed by the Government. It is charged with promoting producer cooperatives, constructing warehouses and production facilities, establishing training courses in fishing, supervising marketing activities, and extending financial aid to producers.

Government iron and steel projects.

An outstanding example of recent Government aid to industry is the Volta Redonda project, begun in 1941. A thoroughly modern, well-equipped steel plant, designed to produce a variety of products, is being constructed in the State of Minas Gerais. When completed this plant is expected to more than treble the country's production of steel. ^{4/} It will have an annual output of more than 300,000 tons of steel, including structural forms, rails and accessories, rods, plates, billets, and tin plate; its production will also include pig iron, coke, and byproducts such as ammonium sulfate, light oils, toluol, and tar.

The Volta Redonda plant is owned by the National Steel Co. (Companhia Siderurgica Nacional), a controlling interest in which is held by the Federal Government. The company has an authorized capital of 1 million contos (50 million dollars), of which 750,000 contos is to be common stock. The president of the company is appointed by the President of the Republic, whereas the remaining officers and directors are elected by the stockholders. The cost of the undertaking is estimated to be 75 million dollars; the steel company has obtained a line of credit from the Export-Import Bank of Washington of up to 45 million dollars for the purchase of equipment in the United States.

^{1/} Executive Decrees No. 5032, December 4, 1942; revised by Executive Decree No. 5426, April 27, 1942, and No. 5532, May 28, 1943.

^{2/} Executive Decree No. 5031, December 9, 1942; see also Executive Decree No. 5531, May 28, 1943.

^{3/} Executive Decree No. 5030, December 4, 1942.

^{4/} For a comprehensive discussion of the iron and steel industries in Brazil, see U. S. Tariff Commission, Mining and Manufacturing Industries in Brazil, 1945 [processed].

On March 3, 1942, the Governments of Brazil, the United Kingdom, and the United States signed an agreement for the development of the Itabira mining properties, the rehabilitation of the Victoria-Minas Railroad, and the expansion of ore-loading facilities at the port of Victoria. The Export-Import Bank of Washington extended a line of credit of 14 million dollars for this purpose. Subsequently the mines and the railway were made Government property. The project will be carried out by the Companhia Vale do Rio Doce, a Brazilian company. It is expected that the Itabira mines will eventually produce more than 1 million tons of iron ore a year for export.

Additional aids to industry.

In addition to the employment of protective tariffs, "defesa" institutes, developmental commissions, and exemptions from duty, the Government of Brazil during the war period has been active in a number of other ways in fostering the country's industrial development. These have included the granting of subsidies, the guaranty of prices, tax exemptions, embargoes on imports, and direct financial assistance. To prevent undue obsolescence in the cotton-textile industry during the post-war period, the importation of used or obsolete machinery for manufacturing cotton textiles was prohibited in 1942. ^{1/} The activities of the Flour Trade Supervisory Service in promoting domestic production of wheat have been continued. Minimum export prices have been fixed for quartz crystals and raw cotton.

In 1940, for the purpose of encouraging the petroleum-refining industry, domestically refined petroleum products were made subject to a single federal tax approximately 25 percent lower than the customs duty on imported products. For a 5-year period beginning in December 1942 the Federal Government guarantees to purchase gasoline and Diesel oil extracted from domestic shales at designated minimum prices.

In 1942 the Federal Foreign Trade Council inaugurated a program to achieve greater self-sufficiency in the production of agricultural machinery. The industry was declared to be of "national purpose"; ^{2/} producers were instructed to standardize types of machinery; selling prices and profit margins were fixed; and the Ministry of Agriculture guaranteed to make minimum purchases of 5 million cruzeiros (about \$250,000) of agricultural machinery in 1943.

Similar aids have been extended to promote sericulture and natural-silk spinning and to develop Cafelite, a plastic made from green coffee. The Government, ordinarily through the Bank of Brazil, ^{3/} has given direct financial assistance, in the form of loans and subscription to capital, to encourage the establishment of these and other new industries. Such assistance has recently been granted for the construction of a caustic-soda plant and paper mills.

Mobilization of the domestic economy.

In March 1942, following attacks by German submarines upon ships of the Brazilian merchant marine, a constitutional amendment authorized the Executive to declare the existence of an emergency or a state of war and to seize the property of nationals of countries committing acts of aggression against Brazil. On August 22, 1942, it was announced that a state

^{1/} Resolution No. 20 of the Economic Defense Commission, February 26, 1942; see also Official Notice No. 283, issued by the Commission June 4, 1942.

^{2/} Resolution of the Federal Foreign Trade Council, approved by the Executive December 17, 1942.

^{3/} Somewhat similar aid has been granted through the "defesa" institutes.

of war existed with Germany and Italy. Thereafter the Government undertook to mobilize the economic resources of the country for hemispheric defense; this included the organization and coordination of productive facilities, projects for increasing the output of strategic materials, the rationing of essential supplies, and the control of prices.

The Office of Coordinator of Economic Mobilization.—Soon after the outbreak of the war in Europe in 1939, the Executive created several boards with broad economic powers. On September 16, 1939, in order to assure an adequate supply of prime necessities at reasonable prices, the Commission of Supply (Comissao do Abastecimento) was established under the Ministry of Agriculture. It was authorized to regulate the production of and trade in foodstuffs, raw materials, drugs and medicines, construction supplies, fuels, lubricants, and other prime essentials. Its powers included the right to fix maximum wholesale and retail prices, to maintain stock piles of essential commodities, and to requisition stocks when necessary.^{1/}

In September 1939, the Executive also created another board, the National Economic Defense Commission (Comissão de Defesa da Economia Nacional), designed principally to promote foreign trade.^{2/} The Commission was given authority to control exports, to fix ceiling prices for export products, and to take steps to assure a regular supply of essential commodities. In 1941 the Commission delegated to the prefecture of the Federal District power to fix food prices in that area and prohibited the exportation of rayon and cotton yarns; in 1942 it fixed maximum prices and established rationing controls over other products.

Also during 1939, the Production and Supply Control Commission (Comissão Reguladora do Abastecimento e da Producao) was created to coordinate domestic and foreign trade. This body, responsible to the Ministry of Agriculture, was authorized to maintain a continuous inventory of food products, fuels, lubricants, and other raw materials, and to regulate the distribution and consumption of goods in accordance with public necessity.^{3/}

Shortly after Brazil entered the war in August 1942, the National Economic Defense Commission was abolished, and the Office of the Coordinator of Economic Mobilization (Coordenador da Mobilização Economica) was created.^{4/} The Brazilian economy became subject perhaps to more extensive control than that of any other nation in the Western Hemisphere. In effect, the Coordinator's office centralizes functions more comprehensive than those exercised in the United States by the War Production Board, the Office of Price Administration, the Office of Defense Transportation, the War Manpower Commission, and the Foreign Economic Administration. All economic resources, including labor, were to be mobilized for the service of Brazil. The Coordinator, responsible directly to the Executive, is authorized to regulate productive activities, control export and import operations, coordinate transportation facilities, direct the rationing of essential commodities, fix maximum and minimum prices, intervene in the labor market to assure efficient allocation of manpower, and to institute other economic controls essential to the successful prosecution of the war.

The influence of the Coordinator has been extensive. Virtually all the powers delegated to this office have been employed, and all important control agencies have been centralized under the supervision of the Coordinator. The scope of the activities and the extent of the authority of the Coordinator's office in relation to the general economy is indicated by the following abridged outline of its functional organization:

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- 1/ Executive Decree No. 1607, September 16, 1939.
 - 2/ Executive Decree No. 1641, September 29, 1939.
 - 3/ Pan American Union, Commercial Pan America, Washington, September 1940, pp. 267-270.
 - 4/ Executive Decree No. 4750, September 25, 1942.

The Coordinator of Economic Mobilization (Coordenador de Mobilização Econômica)

- I. Staff divisions (Órgãos de Staff) (Assist the Coordinator in the study and solution of various problems)
- II. Executive divisions (Órgãos Executivos)
 - A. Sectors of Coordination (Setores de Coordenação)
(Coordinates the activities of governmental and quasi-governmental agencies already in existence; other sectors to be created when necessary)
 1. The Fuel and Power Sector (Setor Combustíveis e Energia)
 - a. The National Petroleum Council (Conselho Nacional de Petróleo)
 - b. The Sugar and Alcohol Institute (Instituto do Açúcar e do Alcool)
 2. Land Transportation Sector (Setor Transportes Terrestres)
 - a. The State highway agencies
(Órgãos Estaduais de Estradas de Rodagem)
 - b. The National Highway Department (Departamento Nacional de Estradas de Rodagem)
 - c. The Central do Brasil Railway
(Estrada de Ferro Central do Brasil)
 3. The Maritime Transport Sector (Setor Transportes Marítimo)
 4. The Mineral Production Sector (Setor Produção Mineral)
 - a. The National Council of Mines and Minerals
(Conselho Nacional de Minas e Metalurgia)
 - b. The National Salt Institute (Instituto Nacional do Sal)
 5. The Agricultural Production Sector (Setor Produção Agrícola)
 - a. The National Department of Agricultural Production
(Departamento Nacional de Produção Vegetal)
 - b. The National Coffee Department (Departamento Nacional do Café)
 - c. The Rubber Bank (Banco da Borracha)
 - d. The National Maté Institute (Instituto Nacional do Maté)
 - e. The National Pine Institute (Instituto Nacional do Pinho)
 - f. The Cacao Institute of Bahia (Instituto do Cacao da Bahia)
 - g. The National Tobacco Institute (Instituto Nacional do Fumo)
 - h. The Rice Institute of Rio Grande do Sul
(Instituto do Arroz do Rio Grande do Sul)
 6. The Foreign Commerce Sector (Setor Comércio Exterior)
 - a. The Federal Foreign Trade Council
(Conselho Federal do Comércio Exterior)
 - b. The Inter-American Agreements Commission
(Comissão de Acordos Interamericanos)
 - c. The Export and Import Department of the Bank of Brazil
(Carteira de Exportação e Importação do Banco do Brasil)

B. The Sectors of Direct Action (*Sectores de Ação Direta*) organizes, plans, coordinates, and administers measures deemed necessary but beyond the jurisdiction of existing agencies of control. New direct-action sectors will be created when necessary.

1. The Industrial Production Sector (*Setor Produção Industrial*)
2. The Price Sector (*Setor Preços*)
3. The Supply Sector (*Setor Abastecimento*)

C. The Specific Production Divisions (*Os Órgãos Específicos de Produção*) (Production divisions will be created as needed.)

D. Specific Distribution Divisions
(*Os Órgãos Específicos de Distribuição*) (Supervises the distribution of specific commodities; divisions will be created when needed.)

1. Distribution of Liquid Fuel
(*Distribuição de Combustíveis Líquidos*)
2. Control of Chemical and Pharmaceutical Products
(*Controle de Produtos Químicos e Farmacêuticos*)
3. Wood and Charcoal (*Lenha e Carvão Vegetal*)

Commission for the Financing of Production.—Early in 1943 the Government established the Commission for the Financing of Production (*Comissão de Financiamento de Produção*).^{1/} It was to draw up plans for expanding production of specified vegetable and animal products and to supervise the enterprises after they had been approved by the Government. The Commission was expected to concentrate principally on increasing the output of raw materials of which there have been marked shortages.

The Export-Import Bureau.—The Export-Import Bureau (*Carteira de Exportação e Importação do Banco do Brasil*), is a new agency created in 1941 to render financial assistance to exporters and importers. Because of wartime export controls in the United States and other countries, its activities have been concerned chiefly with the procurement and allocation of essential imports. The Bureau operates as a department of the Bank of Brazil; the assistance rendered is primarily financial. The Bureau may, if it appears necessary, import or export goods on its own account. Its stated objective is to enable Brazilian exporters and importers to obtain the most favorable terms in foreign markets and to assure them greater independence of foreign financing.

One of the principal functions of the Bureau has been the regulation of imports from the United States and the distribution to Brazilian industries of materials subject to export control by the United States. Its policy has been to authorize the importation of essential commodities only in order to assure the most advantageous use of shipping facilities. The Bureau has published a list of products indispensable to national defense; import licenses are granted only for such commodities. Importers must submit "preference requests" which, if approved by the Bureau, ordinarily are honored by the export control authorities of the United States.

Export and reexport controls.—To protect their domestic economies from shortages of essential materials, and to prevent shipment of these commodities to Axis-controlled nations, most of the countries of Latin America have undertaken to control both the exportation and reexportation of vital industrial materials. This program is in accordance with the

^{1/} Executive Decree No. 5212, January 21, 1943; see also Executive Decree No. 11688, February 20, 1943.

general policies endorsed at the meeting of Foreign Ministers of the American Republics held at Panama in 1939.

Since the outbreak of the war all important exports from Brazil have been subjected to control, principally metals and other strategic materials. Even before the war, Brazil had fostered its expanding metal-working industries by prohibiting all exports of scrap metal. ^{1/} In 1939 the Metallurgical Commission (Comissão de Metalurgia) was organized ^{2/} with power to control the trade in all scrap metals; it was authorized to assign quotas to producers, control exports, and fix prices. During the war period, many of its activities have been concerned with national defense. It has been particularly active in organizing scrap-collecting campaigns and in building up stock piles.

Beginning early in 1941, a series of decrees established thoroughgoing control over all vital export materials. The exportation of 130 items to countries outside the Western Hemisphere was prohibited, except when specially licensed; included were metals, fibers, chemical products, machinery, and tools. ^{3/} The Export-Import Department (Carteira de Exportação e Importação) of the Bank of Brazil, together with the Ministry of Finance, was authorized to administer this program; from time to time the list of commodities subject to control has been altered. ^{4/} Exports ordinarily have been permitted only when the supply has been in excess of domestic requirements and then only when approved by the National Federation of Industries (Confederação Nacional da Indústria) and the Export-Import Department. By an exchange of notes in May 1941, Brazil agreed for a period of 2 years to export certain strategic materials only to the United States.

Closely related have been measures for the conservation of supplies essential to the domestic economy. Commodities the exportation of which has been prohibited, or for which export licenses are required, include starch, flour, rice, jute, cotton and rayon yarns, lard, rayon thread, automobiles, sugar, beef, and floss silk. In April 1942, the Ministries of War, Navy, and Air were authorized to compile a list of industrial, agricultural, and pastoral products indispensable to domestic consumption, the exportation or reexportation of which should be prohibited. ^{5/}

Wartime commodity purchase agreements.—Brazil is an important source of many vital mineral products; these include iron ore, manganese, quartz crystals, mica, zirconium, antimony, beryllium, bauxite, chromium, cobalt, copper, vanadium, nickel, mercury, tungsten, tin, zinc, and industrial diamonds. Important nonmineral products of Brazil include rubber, castor beans, jute, rotenone, cacao, and babassu nuts.

In accordance with resolutions adopted by the Foreign Ministers of the American Republics at Panama and Rio de Janeiro, recommending the mobilization of economic resources for the defense of the Western Hemisphere, Brazil has entered into a number of agreements with the United States, making its mineral and forest resources available for the prosecution of the war against the Axis Powers. Other agreements with the United States have had as their objective the wartime stabilization of important sectors

^{1/} Executive Decrees No. 23565, December 7, 1933, and No. 23884, February 19, 1934.

^{2/} Executive Decree No. 1284, May 18, 1939.

^{3/} Executive Decree No. 3032, February 7, 1941.

^{4/} Modifications of the export-control program were set forth in Executive Decrees No. 3067, February 7, 1941; No. 3097, March 7, 1941; No. 3206, April 22, 1941; No. 4129, February 25, 1942; No. 4270, April 17, 1942; No. 4273, April 17, 1942; and No. 4377, June 15, 1942.

^{5/} Executive Decree No. 4270, April 17, 1942.

of the Brazilian economy, for example, the cotton, cacao, and coffee industries. These commodity arrangements, besides providing for collaboration in the defense of the Western Hemisphere, have sustained the markets for Brazilian products which had been disrupted by the war. The United States in turn has agreed to supply Brazil with military and naval matériel under the provisions of the Lend-Lease Act.

On May 14, 1941, an over-all agreement was concluded by which Brazil agreed for a period of 2 years to export the following commodities only to the United States: Bauxite, beryl ore, chromite, ferronickel, industrial diamonds, manganese ore, mica, quartz crystals, rubber, titanium (rutile), and zirconium. The Metals Reserve Co. and the Rubber Reserve Co. of the United States in turn agreed to purchase all surplus stocks ^{1/} of these commodities (all grades) in excess of domestic requirements (up to certain specific maximum quantities), at prices to be agreed upon with the Bank of Brazil. ^{2/} On March 11, 1942, a similar agreement was concluded which covered cobalt, nickel, and tungsten. Since the expiration of these arrangements, purchases have been continued on an informal basis.

A series of important agreements (the Washington Agreements) were signed on March 3, 1942; these were designed to promote the security of the American Republics by expanding the production of strategic raw materials. At the same time the Export-Import Bank and the Metals Reserve Co., together with British interests, completed arrangements for the development of the Itabira iron-mining properties. ^{3/} The Rubber Reserve Co. established a fund of 5 million dollars to be employed by the Company, in collaboration with the Brazilian Government, in developing the production of raw rubber in the Amazon valley and adjacent regions. The Rubber Development Co. agreed to purchase Brazilian rubber for a period of 5 years. In July 1942 the Government of Brazil created a new agency, the Rubber Credit Bank ^{4/} (Banco de Crédito da Borracha), to administer the rubber development program.

The Washington Agreements soon were implemented by a number of contracts affecting particular commodities. On March 17, 1942, the Brazilian Government agreed to confine the exportation of certain grades of cotton linters to the United Kingdom, the United States, and other American Republics having approved systems of export control. In return, the Federal Loan Agency of the United States agreed to purchase, up to certain maximum quantities, all exportable surpluses of these commodities. On July 24 and 25, 1942, six additional agreements were concluded, covering babassu nuts, cotton linters, ^{5/} burlap, ipecac, rotenone, and castor beans. Although the agreements varied in detail, in general the Defense Supply Corporation and the Commodity Credit Corporation of the United States agreed to purchase the exportable surplus of each of these products. The Brazilian Government has organized an administrative agency, the

^{1/} In excess of purchases by approved United States firms.

^{2/} For a more comprehensive survey of these negotiations see Howard L. Boorman, U. S. Department of State, Government to Government Agreements for the Acquisition of Strategic Materials from the Other American Republics, January 1943 /mimeographed/.

^{3/} See the section on the Volta Redonda project.

^{4/} Executive Decree No. 4841, October 17, 1942. The Rubber Credit Bank is owned jointly by Brazilian and United States interests; its capital stock, amounting to 50 million cruzeiros, is held as follows: 55 percent by the Brazilian Treasury, 40 percent by the Rubber Reserve Co., and 5 percent by the public.

^{5/} Superseding the former agreement.

Commission for the Control of the Washington Agreements (Comissão de Controle dos Acordos de Washington), to supervise the operation of the agreements. ^{1/}

Another series of agreements was designed principally to assist Brazil in the stabilization of its economy under the impact of wartime dislocations. These agreements, concluded on October 6, 1942, provided for the purchase by the United States of coffee, cacao, and Brazil nuts. The Commodity Credit Corporation agreed to underwrite or purchase the portion of the Brazilian basic quota of coffee exports to the United States which remained unshipped at the end of the 1942 quota year (about 2.7 million bags) and that portion of the 1943 quota (about 9 million bags) which remained unshipped at the end of that quota year. It also agreed to purchase 1 million bags of cacao (about 57 percent of the crop), between October 1942 and March 1943. ^{2/} The Rubber Reserve Co. guaranteed to purchase up to a maximum of 10,500 tons of Brazil nuts in the Belém and Manaus areas.

Wartime financial controls.—The Ministers of the American Republics, meeting at Rio de Janeiro in January 1942, recommended measures to block the use or transfer of funds within the Western Hemisphere by nations (or their nationals) which had committed acts of aggression against the American Continent. Brazil had already taken steps to achieve these purposes; two days following the attack on Pearl Harbor, control was established over funds of all nationals of non-American countries then at war. All financial transactions of individuals, natural or juridical, were blocked and subjected to the control of the Bank of Brazil. ^{3/} In practice, the freezing order has been applied to all persons or entities, regardless of nationality, who are suspected of relations with the aggressor nations. Representatives of the Bank were immediately appointed to control the operations of German, Italian, French, and Japanese banks in Brazil.

Early in 1942 all property and assets of Axis nationals in Brazil were made liable for damages inflicted on the life, property, and rights of Brazilians by Axis countries. An Indemnization Fund Commission was created to enforce these regulations. ^{4/} Debts accruing to firms subject to control must be paid into the Indemnization Fund. In October 1942 the National Defense Commission was created to administer wartime financial control measures, with broad powers to confiscate or to control the operations of firms suspected of cooperating with the enemy. ^{5/} It is reported that most of the firms on the "proclaimed list" of the United States have thus been subjected to control.

Another measure designed to reinforce wartime economic controls relates to the circulation of United States currency in Brazil. Since May 1942, all transactions in United States currency have been prohibited, and individuals possessing such funds have been required to deposit them with the Bank of Brazil. To secure conversion of dollar currency, owners must furnish information as to its origin; if the funds are subsequently validated by the United States Treasury, the owners receive payment in Brazilian currency. This control was instituted principally to prevent the liquidation by Axis nations of funds appropriated in the conquered territories. Somewhat similar regulations were established for Brazilian paper currency, the importation and exportation of which was prohibited in February 1943.

^{1/} Executive Decrees No. 4523, July 23, 1942; No. 5134, December 24, 1942; and No. 5425, April 27, 1943.

^{2/} Less quantities sold to other United States purchasers.

^{3/} Executive Decree No. 3911, December 9, 1941.

^{4/} Executive Decree No. 4166, March 11, 1942.

^{5/} Executive Decree No. 4807, October 7, 1942.

Rationing of scarce commodities.—The war and the accompanying shipping restrictions have created shortages in Brazil of many essential raw materials and industrial supplies. Early controls over distribution were initiated by various commissions and boards before the creation of the Office of Coordinator of Economic Mobilization. No over-all system of rationing has been organized; indirectly or directly, however, rationing is now exercised by the Office of the Coordinator.

Imports of coal and petroleum into Brazil declined drastically after 1941; this decline threatened Brazilian industrial life with serious disruption. Substitute fuels have been employed, including firewood, charcoal, alcohol, coffee beans, cottonseed cake, and babassu nuts. The Government has taken a number of steps to stimulate domestic production of coal. ^{1/} Despite these attempts, it was necessary for the Central Railroad to abandon operation of some of its lines and to curtail services on others. One cement plant is reported to have closed down and operation of the gas works in Rio de Janeiro was seriously handicapped.

Rationing of coal was first established in August 1942, when domestic producers were required to deliver to the Government 75 percent of their total output. These stocks were rationed to consumers; preference was extended to railways, shipping lines, and public utilities. At the same time prices were fixed. In each area an agency was designated as the rationing authority, subject usually to the supervision of the Ministry of Transportation and Public Works. Producers were permitted to sell the remaining portion of their output (25 percent) at prices determined in the open market. In April 1943 the Ministry of Transportation organized a special commission to direct the coal-rationing program.

The supply of petroleum products has been an equally serious problem. Brazil has been forced to reduce its consumption of these products by about 40 percent. Since April 1942 a strict program of gasoline rationing has been in effect. ^{2/} Before the organization of the Office of the Coordinator of Economic Mobilization this program was administered by the National Petroleum Council; ^{3/} it adopted measures to reduce consumption throughout the States by about 30 percent. Various States organized their own agencies to ration the supplies allocated by the Council. ^{4/}

After September 1942 the National Petroleum Council became subject to the supervision of the Coordinator of Economic Mobilization. From time to time the Coordinator has extended control over the rationing program. In November 1942 it created Liquid Fuel Rationing Commissions (Comissão de Racionamento e Distribuição de Combustível Líquidos) in the State of São Paulo and in the Federal District. These commissions are authorized to establish quotas for consumers, requisition stocks, promote the use of petroleum substitutes, and undertake other measures to assure efficient use of available supplies. In August 1943 the Coordinator assumed complete charge of petroleum rationing throughout the country, leaving to the Council its duties relating to promotion of domestic production.

^{1/} Executive Decrees No. 3986, December 30, 1941, and No. 4568, August 12, 1942; see also Coordinator's Orders No. 16, November 5, 1942, and No. 43, March 10, 1943.

^{2/} Executive Decree No. 4272, April 17, 1942.

^{3/} Executive Decree No. 4292, May 7, 1942.

^{4/} This was done in São Paulo by the Department for the Control of Fuel Consumption (Serviço de Controle Consumo do Combustível) operating under the Ministry of Agriculture; this agency through a subcommission, the Commission for the Restriction of Gasoline and Petroleum Derivatives (Comissão de Consumo de Gasolina e Derivados), instituted a system of rationing to consumers on May 15, 1942.

Despite these measures to alleviate the fuel crisis, many services have been sharply curtailed. Electric-power installations dependent upon petroleum fuels have been required to reduce their output, and transportation has been restricted to essential commodities. Ration cards and quotas have been provided for all consumers of gasoline. Beginning July 15, 1942, the use of gasoline in all private or official passenger automobiles ^{1/} was prohibited. Consumption of petroleum fuels by trucks has been reduced about 50 percent, and the use of trucks for nonessential purposes has been prohibited.

Since 1939 the Government has encouraged the use of gasogenes ^{2/} (gasogênios) for vehicles; this program appears to have been quite effective. ^{3/} Under the supervision of the National Gasogene Commission (Comissão Nacional de Gasogenio), created in February 1939, ^{4/} the production and installation of gasogenes has, in effect, become a public utility. All companies operating busses have been required to convert 20 percent of their vehicles from gasoline to gasogenes. The Commission is authorized to engage in research activities, to manufacture gasogene equipment, to subsidize the manufacture and use of such equipment, and to control distribution. ^{5/}

The compulsory mixing of alcohol with gasoline, originally undertaken to cope with the problem of sugar surpluses, has under war conditions served to alleviate the fuel shortage. The Sugar and Alcohol Institute and the Office of Coordinator have initiated numerous measures to increase the production of alcohol. It is reported that in 1942 nearly one-fourth of all liquid fuel consumed in Brazil consisted of alcohol mixed with gasoline. The chief sources of anhydrous alcohol have been manioc starch and sugarcane, and oranges.

The authority of the Coordinator of Economic Mobilization over essential supplies is extensive, and many additional measures have been employed to ration or to economize the supply of scarce commodities. Among the products affected have been metal products, sugar, burlap, various chemicals, tin plate, newsprint, manufactured rubber products, construction materials, meat, salt, and wheat flour. ^{6/}

Price control.—Price-control measures have been administered in Brazil by several official and semiofficial agencies. Until the war such controls were employed to assure minimum prices to producers in selected domestic industries. More recently, however, wartime dislocations have led to additional controls to protect consumers.

^{1/} Except automobiles used by diplomatic missions and major Government officials.

^{2/} A gasogene is a portable apparatus for generating combustible gas (usually from charcoal) for use in internal-combustion motors.

^{3/} In July 1940 the Executive granted a prize of \$1,000 for the establishment of the first factory for the manufacture of gasogenes. On April 8, 1943, installations in the Federal District alone are reported to have been made in 1,001 passenger cars, 962 trucks, 51 busses, and 70 other motor vehicles; in June 1943 it was reported that more than 15,000 motor vehicles, representing about one-third of these in the country, had converted to gasogenes.

^{4/} The Commission was created by Executive Decree No. 1125 of February 28, 1939; its status was further defined by Executive Decrees No. 2526 of August 23, 1940, and No. 4499, July 20, 1942.

^{5/} Five States also have established their own gasogene commissions.

^{6/} See U. S. Office of Price Administration, Price Control, Prices, Cost of Living, Rationing, Washington, 1943 [mimeographed]

In August 1942 virtually all authority over prices was vested in the Coordinator of Economic Mobilization or in the many administrative agencies responsible to that office. Price controls in the interests of producers, are still employed for coffee, cacao, coal, gasoline, rubber, petroleum, sugar, alcohol, salt, flour, mate, bananas, oranges, rock crystals, pine lumber, tobacco, and several other commodities. The "defesa" institutes and similar bodies, now responsible to the Coordinator, continue to function in these fields, although they have served in a number of instances to prevent price increases, as well as to prevent undue declines.

Attempts to control prices of consumer goods and other basic materials began soon after the outbreak of the war in 1939. The Commission of Supply, the National Economic Defense Commission, and the Production and Supply Commission were created largely for this purpose.^{1/} It does not appear that these agencies were very active. In the State of São Paulo, however, the Commission for the Control of Prime Necessities (Comissão de Fiscalização dos Gêneros de Primeira Necessidade), created in 1941, is reported to have met with some success. In October 1939 rent control for residential dwellings was inaugurated by the Commission of Supply, but was abandoned when that agency was abolished. Effective September 1, 1942, rent ceilings were again imposed, using as a base the rents in effect on December 31, 1941.^{2/} In November 1942 the Coordinator of Economic Mobilization extended these regulations to include rents for commercial and industrial establishments.

Soon after the organization of the Office of the Coordinator of Economic Mobilization, a Price Sector (Setor Preços) was created within that agency with power to fix maximum and minimum prices for all commodities and services. The Price Sector was divided into the Divisions of Price Statistics, Production Costs, and Price Administration. For a period of about a year the new agency conducted an active program to prevent price increases; Federal, State, and municipal price control commissions were organized to administer the general policies established by the Coordinator. The municipal price commissions, composed of representatives of consumers and producers, were authorized to fix prices in their respective areas. The State commissions supervised the local agencies, and were empowered to fix prices for the entire States. The Federal Price Control Commission (Comissão Federal de Preços) not only had general supervision over the national program, but also served as the municipal commission for the Federal District. Its broad powers included the right to fix prices, ration commodities, establish priorities, limit profits, requisition stocks, and supervise accounting procedures.

Price ceilings were soon established by the various authorities. A sweeping order on January 8, 1943, fixed maximum prices for all commodities at levels which existed on December 1, 1942. Local price commissions were authorized to alter these ceilings when warranted. Special price ceilings were published for many areas. In addition to the general freezing order, numerous regulations have been issued by the Coordinator, establishing prices for particular commodities such as cotton textiles, vegetable oils, beans, fruits, eggs, fish products, tobacco, construction iron, lard, tin plate, pharmaceuticals, cattle, and beef.

The Office of the Coordinator has engaged in numerous other activities to prevent price increases. It has controlled the quantities of rice which may be exported, regulated the use of agricultural byproducts, and ordered that on certain days frozen meat be sold in Rio de Janeiro. During 1942 it established a number of sales centers which sell prime necessities at cost. More recently, textile manufacturers have been required to supply substantial quantities of low-priced "popular fabrics" to low-income groups.

^{1/} See the section on the Office of the Coordinator of Economic Mobilization.

^{2/} Executive Decree No. 4598, August 20, 1942.

The Brazilian experiment in over-all price control came to an end on July 22, 1943, when the Price Sector and the Federal Price Commission were abolished by the Coordinator. This was done after the resignation of, and upon recommendation by, the chief of the Price Sector, who attributed price increases to deep-seated economic disturbances and characterized price control measures as "symptom therapeutics." It was thereupon announced that the attack upon the price problem would be directed to remedying deficiencies in production and inadequacies of transportation, and to the better distribution of purchasing power. Price-control measures were not completely abandoned with this shift of emphasis, however; most of the functions of the Price Sector have been assigned to other agencies responsible to the Coordinator. The municipal price commissions continue to function in accordance with previous regulations. ^{1/}

It is generally conceded that Brazilian price-control measures have been moderately effective and that prices would have risen more rapidly had such controls not been invoked. The price authorities were handicapped with an inadequate and untrained staff; there have been other obstacles to overcome. Perhaps the best that can be hoped for under such circumstances is the prevention of inordinate speculation and excessive price increases. Prices have been rising in Brazil for many years; in the last 30 years they have increased nearly 400 percent. In large part this increase reflects the changing value of the currency. This trend has been intensified by the war; thus there have been shortages in imports as well as in domestic production, deposit currency and note issue have expanded, and transportation services have been curtailed. Under these conditions, price-fixing has been ameliorative only. Prices and the cost of living have continued to increase; in December 1943 the index of the cost of living in Rio de Janeiro had risen more than 40 percent from the 1940 level and was more than 20 percent above that in 1941. ^{2/}

Post-War Problems Relating to Controls and Commercial Policy

Post-war effects of war conditions.

The post-war problems of protection or other government aid to manufacturing industries in Brazil probably will not differ greatly from those in the pre-war period. Although the wartime shortage of imports of certain classes of manufactured goods has constituted a motive for expanding domestic manufacture, the difficulty of obtaining both capital equipment and raw materials has prevented any large expansion in most industries. A major exception, of course, is the government-controlled Volta Redonda steel plant; although the rich iron-ore resources of Brazil would no doubt ultimately have led to the erection of such a plant under peacetime conditions, requirements during the war hastened its establishment. Large modern plants also have been built in the window-glass and pulp-and-paper industries. Apart from such wartime changes as these, it is likely that after the war the steady progress of Brazilian industrialization, which characterized the decades preceding the war, will proceed with little change in general direction, so that few new problems of controls will arise.

^{1/} By an order of the Coordinator on November 26, 1943, new price ceilings were established, based on prices prevailing on November 10, 1943.

^{2/} This upward trend of living costs is of long standing, reflecting in large part the declining value of the currency before 1939. The official index of living costs in Rio de Janeiro for selected years is as follows: (1912 = 100) 1915—111, 1920—167, 1925—259, 1930—243, 1935—265, 1940—363, 1942—454, June 1943—490, and December 1943—516.

In the case of a number of raw materials, principally certain minerals, certain vegetable oils, and rubber, the wartime needs of the United States and the other Allied Nations have caused a marked expansion of production in Brazil. Some few of the industries thus expanded may continue in the post-war period to operate on a scale much larger than before the war. For the most part, however, after the lapse of existing contracts with the United States Government, they will probably return more or less to their pre-war status among world sources of supply. The Brazilian Government will presumably adopt measures designed to foster such of these war-expanded industries as seem best able to compete in world markets, principally utilizing the methods which it was already employing in various sectors of industry before the war and which it has used more widely and more vigorously during the war.

Trade barriers.

The economic well-being of Brazil is dependent on a large export trade in a limited number of basic foodstuffs and raw materials such as coffee, cacao, cotton, meat, hides and skins, Brazil nuts, carnauba wax, castor seed, and vegetable oils. Most of its exports ordinarily go to the leading industrial countries of North America and Europe. Of most of Brazil's major export commodities, there is little, or inadequate, domestic production in the principal importing countries, and a good many of those countries admit these articles free of duty, although in other cases they impose duties, sometimes quite high, primarily for the sake of revenue.

Brazil's export trade is affected not merely by the policies and measures of countries to which it sells, but also by its own policies which affect its imports directly or indirectly. The ability of other countries taken as a group to buy Brazilian goods is, of course, mainly dependent on their ability to sell goods to Brazil. Restriction of imports into Brazil by tariffs, together with other governmental measures for fostering the development of manufacturing industries in Brazil, might be carried so far as to unduly reduce Brazilian imports, with a consequent unfavorable repercussion on exports.

The Brazilian tariff and Brazilian policies designed to foster domestic manufacturing industries must also be judged by their effects on the efficiency of industry and on domestic consumers. Brazil's tariff is high compared with that of most other countries and, although revenue has been an important purpose, protection of domestic industries also has been a major feature of tariff policy. To what extent the expansion of Brazilian manufacturing industries in the past has been hastened by protection must necessarily be a matter of speculation; in any case it is probable that, in the absence of protection, the relative growth of the individual manufacturing industries would have been materially different from that which has actually taken place.

In Brazil, as in other countries which are seeking to become more industrialized, there is danger that tariff protection, or other Government aid, will not be confined to those industries which are adapted to the natural and human resources of the country and to those which will ultimately be able to produce at reasonable costs. There is danger that in some cases high-cost, inefficient industries will be brought into existence, the continuance of which will require permanent governmental support at the expense of consumers or taxpayers. It is to the interest of any country that careful discrimination be exercised in selecting the industries to be fostered. Care likewise is needed in selecting the methods of fostering them, whether by tariff, by direct subsidy, or by other forms of Government aid, taking into account the relative degree of difficulty which might be encountered in bringing the Government support to an end either when the need for it has ceased or when it has been proved impossible to create an efficient domestic industry by artificial measures.

Whether, apart from its tariff on imports, Brazil will need, in the post-war period to maintain quantitative import restrictions or exchange controls will depend largely on general world conditions of trade and currency. The restrictive measures of this type employed by Brazil in the decade preceding World War II were aimed at defense rather than aggression; they were largely forced on it by the general deterioration of international economic relations, the demoralization of currency exchanges, and the extensive use of similar restrictive measures by other countries, particularly of continental Europe. If in the post-war period the leading countries of the world can by cooperative arrangements stabilize their currencies and place international economic relations on a firmer footing, Brazil probably will have little need again to resort to these abnormal methods of restricting trade.

Export duties have in the past played a considerable part in Brazil's international trade. Although the purpose has been mainly to provide revenue (for the state governments rather than the Federal Government) they have tended to restrict sales abroad and thereby to lessen Brazil's buying power in international markets. There was already some movement before the war toward lowering or removing these restrictions on export trade, and this trend may very likely be resumed in the post-war period.

Government regulation of industry.

During the decade preceding the war Brazil was exercising a larger measure of governmental control over the leading agricultural and other raw material industries, as well as over certain manufacturing industries, than were most other Western Hemisphere countries. This governmental control, which had expanded from year to year, was necessarily extended much further during the war. Although some of the new wartime controls may be abandoned or relaxed when peace comes, it is likely that Government intervention in the economic life of the country will be somewhat greater after the war than before.

In the use of governmental economic controls, largely exercised by the so-called "defesa" institutes, Brazil has manifested a tendency toward the "corporative state," along the lines followed by several of the European countries during the period between the two world wars. Because of cultural ties the Brazilian pattern of controls approaches most closely that employed in Portugal. Professional associations, syndicates and other corporative organizations of producers were established to "rationalize" the respective industries, subject to the control of the Federal Government or of the state governments. Governmental control over these organizations in the pre-war period, however, was not as thoroughgoing as in some of the European countries.

This is not the place to discuss the broad and fundamental economic, social, and political problems involved in the relationship of Government to industry, or to consider the merits of the large measure of control over the national economy which now prevails in Brazil. It is not out of place here, however, to discuss the objectives of the "defesa" organizations, particularly as they may affect the Brazilian economy. Possible objectives include (a) improvement of methods of production and marketing, and increase in efficiency of the industry; (b) stabilization of prices and adjustment of supply to demand in the case of commodities subject to marked fluctuations in output; and (c) exercise of monopolistic powers. The first of these objectives is obviously in the general public interest as well as that of the particular industry. The second, if pursued in a reasonable manner, may also be of general benefit, particularly under emergency conditions. On the other hand, maintenance of monopoly control raises grave questions of public policy, particularly since there is the danger that such controls will be used to exact excessive prices. Unduly high prices not only injure consumers but also are likely, in the long run, to prove harmful to the industries concerned by reducing home consumption, by encouraging the use of substitutes, and, in the case of industries on

an export basis, by causing the loss of foreign markets to producers in other countries. Where monopoly control is permitted, the Government therefore will be faced with the problem of maintaining close supervision to insure that a reasonable policy is pursued as to supplies and prices in both foreign and domestic markets.

The coffee-control program.

The future of the Brazilian coffee industry is likely to be affected materially by international arrangements among governments of producing and consuming countries. No such international arrangement existed before the war. The Inter-American Coffee Agreement was instituted primarily because of the demoralization of the trade resulting from the closing of continental European markets. The agreement has functioned only under wartime conditions. It seems likely, however, that it, or some similar agreement, will persist after the war, with such adaptation as is appropriate to the changed conditions. A coffee agreement may fit into the program now under discussion in the United States and elsewhere for the establishment in the post-war period of an international organization with power to authorize, and to regulate in the public interest, international commodity agreements among governments designed to lessen the burdens of surplus output and to help stabilize prices at levels reasonable for both producers and consumers.

A noteworthy feature of the Coffee Agreement is the large share given to the United States, as the largest consuming country, in the determination of its policies. When the leading coffee-consuming countries of continental Europe are again in a position to share in the trade, it would seem appropriate that they also should be represented in the management of any international organization for the control of coffee marketing. At least in respect to its recognition of the rights of consuming countries in policy making, the present Inter-American Coffee Agreement follows a principle that may be given broader application in connection with other international commodity agreements in the post-war period.

If an international organization for the control of coffee is to operate in the post-war period, it is important that it should not maintain prices at monopolistic levels, not only to avoid inviting new competition from areas not participating in the agreement, but also in order to stimulate consumption, to eliminate high-cost production, and to prevent the accumulation of burdensome surpluses.

Even if the world's coffee markets are stabilized through a strong international organization, it will still be appropriate that Brazil, as well as other major coffee-producing countries, should maintain a vigorous national organization in this field. Such a national organization could do much to improve methods of production and the quality of the product. Particularly in the case of Brazil, where annual variations in the coffee crop appear to be wider than in most other countries, it could serve a very useful purpose in adjusting current marketings to requirements. In years of exceptionally large yields surpluses could be stored, to be released in years of short crops. Moreover, if under an international agreement the quantity of coffee which any given country can export is restricted, there is obvious need of a national organization to allocate the global quotas among the country's several producing areas and among individual producers.

Should no international coffee-control program be in effect after the war, Brazil will presumably attempt, by a domestic organization under supervision of the Government, to stabilize its own coffee industry as best it can. In that case it will be important for the organization to give careful consideration to the results of past experience with

efforts in this direction. Brazil's dominant position in world coffee production enabled it from time to time in the past to check demoralization of prices, and sometimes even temporarily to obtain more or less monopolistic prices from foreign consumers. Whenever such policies were carried too far, permanent injury to the Brazilian industry seems to have resulted, more than outweighing any short-run benefits. The maintenance of high prices for Brazilian coffee was at times in effect a subsidy to producers in other countries. Over a long period, Brazil's share of the world coffee trade has declined, probably partly, though of course not wholly, as the result of its restrictive policies. The tendency also has been to encourage undue expansion of coffee-tree plantings in Brazil itself. The cost of the coffee programs to the Brazilian people in the past has been excessive; state governments have borrowed large sums, which must be repaid, to buy up coffee for destruction in the effort to maintain prices.

