Steel and Sovereignty: Brazilian Debt and Steel in the 1930s, in a Global Mirror

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Beginning in the 1990s, the economic history of the world was rewritten in terms of the then-fashionable concept of "globalization." Emerging first as a research project designed to undercut pundits who claimed that increasing levels of trade and capital mobility were novel features of the late 20th century, it quickly became a sweeping narrative of the history of the world economy since the industrial revolution, neatly dividing up that history into three rough phases. From the early 19th century until 1914, there was globalization, as barriers to the movement of goods and factors decreased and economic integration increased. From 1914-1945 there was "anti-global backlash", and international economic disintegration, which these authors christened "deglobalization." Since 1945 there has been a gradual trend, accelerating since the 1970s, of re-integrating the world economy; in other words, a return to globalization. In the most extreme version of this argument, the authors go so far as to claim that during periods of globalization, growth is fast; during deglobalization, it is slow. This "s-shaped" curve of world history corresponds to classic liberal attitudes: open = good; closed = bad.[1]

Viewing the interwar period as an era of "deglobalization" has a long lineage, even if the term is a neologism. And there is no doubt that, at least in the 1930s, the international economy really did disintegrate. After 1931 there was essentially no international bond market. Beginning in the 1920s, countries that formerly welcomed immigrants closed their borders. The Great Depression was intimately tied up with a collapse in world trade; partly as cause and partly as consequence, tariffs and non-tariff barriers to trade surged across the world. The liberal international order and especially the gold standard bore heavy blame for the Depression, and notions of "autarky" won adherents.

Nevertheless "deglobalization" sits awkwardly alongside realities that were equally apparent to contemporaries. Not for nothing did a U.S. presidential candidate publish a book in 1940 entitled "One

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[1] The most famous statements are in O'Rourke and Williamson, *Globalization and History* and Bordo, Taylor, and Williamson, *Globalization in Historical Perspective*. For the extreme position, Williamson, "Global Capital Markets in the Long Run". For an "appreciative critique" especially as it relates to the role of World War I in the overall narrative, Tooze and Fertik, "The World Economy and the Great War."

World": the arrival of aviation radically reconfigured notions of distance and security.[2] It was in the 1930s that radio became a mass phenomenon. And it was in the interwar period that ideologically inspired forms of social and political organization became a global reality: the fear of "totalitarianism" was predicated on the belief that modern technology facilitated the rapid spread of ideology across geographical boundaries.[3] In many respects the interwar period witnessed the birth of a truly global consciousness, even as the classical foundations of the world economy stood in tatters.

Even in more purely economic terms, however, "deglobalization" is a misleading designation. As all Brazilians know, the steel mill at Volta Redonda was built by American engineers, using imported American equipment, financed by a large U.S. government loan. Brazilians also know that German firms were actively competing for this contract, hoping to build off of their success in fostering a compensation trade between Brazil and Germany. And, it turns out, many other countries launched or expanded domestic steel industries in this same period, with remarkably similar arrangements – including the same engineers, the same steel firms, and the same public financial institutions. Globalization of the classical sort this is not, but nor does "deglobalization" capture the nature of these interactions. The simplified "s-shaped" history of the twentieth century will not do.

In the economic history literature, "deglobalization" is caused by a political backlash against openness. This political backlash was known in the past as "economic nationalism", and for authors writing in this tradition it is taken for granted that economic nationalism was "anti-global" in its orientation. At best, this is a simplification; at worst, it is a caricature. A better approximation would be to say that economic nationalism is an attitude whose fundamental contention is that the world economy is a hierarchical place.[4] As Vargas's adviser on financial questions, first historian of the Brazilian debt, and representative in Brazil of IBM Valentim Bouças put it in 1942, "today, due to the considerable exchange maintained by the world's nations in all the domains of human activity, there no longer exists . . . any nation that could properly be classified as independent, despite the irritating autarkies recently in evidence. What exists . . . is a mutual interdependence, without disregarding, however, an economic hierarchy."[5]

For those nations that for historical or other reasons found themselves far from the top of that hierarchy, positive action was necessary to ensure that their economic weakness was not exploited by the more powerful. *What form that action took* was radically underdetermined. To say that, however, does not

[2] Willkie, *One World*. See Van Vleck, "The 'Logic of the Air.'"
[3] Ekbladh, "Present at the Creation"; Tooze, *The Deluge*.
[4] For an exceptionally persuasive demonstration that the world economy was, in fact, hierarchical, see Flandreau and Zumer, *The Making of Global Finance 1880-1913*.
[5] Bouças, *Independência Econômica*, 3.

imply that it is indeterminate. Indeed, it has certain fundamental characteristics. But these can only be understood within a properly global framework. This is where my research begins.

The central problematic has been matchlessly formulated by the historians Charles Bright and Michael Geyer in a brilliant yet almost entirely neglected set of essays. First in a 1996 article, Bright and Geyer argued that the middle decades of the 19th century had been decisive for all subsequent world history for one very specific reason. Prior to that period, crises in different parts of the world had by and large been resolved regionally. Afterwards, thanks principally to the increased capacities of the European powers to project power, regional crises were always resolved trans-regionally. I quote at length from one of many suitable passages:

> Crucially, what came to an end in the course of these middle decades of the 19th Century was that world of autonomous regions and arms length appropriations of distant goods and knowledge that had enabled disparate power centers and cultures to draw from and exchange with each other the means necessary to carry on in their own, distinct ways. Distance and the time it took to traverse distance, had remained crucial and foundational throughout the long “age of globalization.” The hallmark of that era had been the continuing capacity of disparate regions to produce autonomous histories – that is, to shape the articulations of power, production and social reproduction as well as ecology within their own terms, largely from their own resources, and in the adaptation of ‘other’ techniques, goods and knowledges only inasmuch as local conditions facilitated or warranted assimilation. These buffers of space, time, and nature collapsed in the course of the 19th C, and most especially in its middle decades.
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> This mid-nineteenth century passage was born of the moment when the effects of globalizing processes began to shape destinies on all sides; when the cushions of distance, time and environment no longer protected; when “all” were forced, with a new immediacy, to secure and maintain control over their futures by means of a greater more sustained engagement with all others; and when, in deepening engagement, the capacity for the production of discrete or autonomous histories, on all sides, imploded. It was in this passage that the global condition took shape as a multisided, if unequal engagement in a distinctively interior space of sustained enmeshment that was, in principle, and increasingly in fact, conducted in real time and that was, in principle and increasingly in practice, an engagement of all with all. It was in this moment that we enter a condition in which globality proved the tangible context of action, of political decisions and social practice, for all. Contemporaries experienced this condition as a crisis of survival, which is not far-fetched if we think of the human-made catastrophes of the global age. But it is more useful to think of globality as a series of choices about how to change in order to keep pace with, hold out against, adapt to, or appropriate from a world of continuous and inescapable interactivity those ‘tools of continuation’ necessary for survival. Here the challenge was how to position oneself in a many-sided scramble so as to continue being oneself -- how (as the Chinese said in the 1850s) to learn from the barbarian in order to defeat the barbarian.
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> The bottom line was this: to position oneself anywhere in this world of entanglements, one could only remain the same by transforming oneself. This chain reaction – we would advocate thinking of it as imperative for self-transformation – profoundly shaped the development of the global condition from the mid-19th to the end of the 20th Century. Much of the energy that drove self-transformation across this epoch derived from the dream of recapturing the autonomy of a previous age that, in fact, proved irretrievable. In consequence, over the course of the long 20th Century, the struggle became less and less a matter of whether or not to be a part of a global history and more and more a contestation over the terms of that engagement and over one’s placement in it. It is this global condition rather than globalization that should be the object of a connected history of the 20th Century.[6]

[6] Bright and Geyer, “Benchmarks of Globalization”, which summarizes their research agenda. The precise historical arguments for the centrality of the "mid-nineteenth century passage" are in Geyer and Bright, “Global Violence and Nationalizing Wars in Eurasia and America”. Geyer and Bright, “World History in a Global Age” engages most

One specific but global response to this crisis of the capacity to produce autonomous histories is the interconnected set of processes that we have followed contemporaries in calling "modernization." But seen in this light, what we mean by modernization undergoes a dramatic change of form. As Stephen Kotkin argues, it was

> not something natural or automatic. It involved a set of difficult-to-attain attributes – mass production, mass culture, mass politics – that the greatest powers mastered. Those states, in turn, forced other countries to attain modernity as well, or suffer the consequences, including defeat in war and possible colonial conquest. Colonies . . . [were] markers of geopolitical status, or the lack thereof, which drove an aggressiveness in state-to-state rivalries, as those on the receiving end could attest. Modernity . . . was not a sociological process – moving from "traditional" to "modern" society – but a geopolitical process: a matter of acquiring what it took to join the great powers, or fall victim to them.[7]

In other words, what was at stake for modernizing elites across the world was the very survival of their societies as producers of their own histories. It is not that they necessarily feared political conquest – this was the limit case – but that the history of European imperialism under an expansionist capitalism showed that there were myriad modalities through which peripheral societies could find themselves politically, economically, and culturally subordinated to metropolitan ones. The history of 19th century European imperialism was also the history of the destruction of ancient sovereignties, most dramatically in China and the Ottoman Empire. And for observers in countries like Brazil, the prominent role of sovereign debt in the disintegration of those states did not pass unnoticed.[8]

Within the set of survival strategies known as modernization, by the late 1930s industrialization had emerged as one of the most widespread and sought after. This, also, has to be understood globally. By the interwar period, especially after the experience of the First World War, materialist explanations of international politics were uncontroversial. One did not need to be a Leninist to believe that 19th century imperialism had been driven in large part by European banks seeking outlets for surplus capital; by European and American manufacturers seeking minerals and other primary products; by European and American producers seeking markets for their goods. There were few who would deny that economics played a preeminent role in stoking the inter-imperial competition between European powers, which in

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explicitly with the problems that global history raises for a philosophy of history. It is cited in every globalization reader, but I have never seen its arguments actually taken up. Bright and Geyer, "Regimes of World Order" is their most systematic effort to lay out a theory of the international system.

[7] Kotkin, *Stalin*, 62–63. See also Kotkin, "Modern Times."

[8] I see all of this as being perfectly consonant with the analyses of imperialism and dependency emanating especially from São Paulo in the 1950s, 60s, and 70s. But I think it adds a dimension that was underplayed in those analyses, which I would label "existential." When Brazilian generals in the 1930s talked about the desultory state of military equipment as a question of "vida e morte", I take them at their word. The attitudes and actions of, for example, the *tenentes*, can only be understood if their fear that Brazilian nationality itself was under threat is taken seriously. For an exceptionally subtle Marxist study of the ideology of Brazilian nationalism, see Marson, *A ideologia nacionalista em Alberto Torres*.

turn was the principal cause of the First World War. The War showed that industrial might could be decisive in military conflict, and that industrialized warfare could wreak previously unimagined destruction. That societies needed their own industrial capacity in order not to be dependent on foreigners in the case of war was a logical deduction from this reading of the international situation.[9] Industrialization was not perforce incompatible with imperialism, as in the case of the Japanese satellite of Manchukuo, but even the experience of Manchukuo demonstrates that, at a minimum, imperialism itself required new forms of nationalist legitimation in the interwar period.[10]

After World War I, older visions of a peaceful liberal international order gave way to the belief that international politics was an inherently dangerous sphere. This, too, was a worldwide phenomenon, visible, for example, in the writings of Carl Schmitt. Thanks to the newfound preeminence of the United States, whose power, due to the rearrangement of the international "financial geometry" brought about by the war, was first and foremost financial, it was no longer thought that the principal threat to sovereignty was direct invasion, but a more insidious hollowing-out, abetted by foreign and domestic enemies. In Schmitt's decisionist outlook, the result of such a state of affairs could only be civil war. But even if his view was more extreme than most, the sensibility underlying Schmitt's analysis was widely shared. Indeed, it was a commonplace across the political and ideological spectrum in Brazil in the 1930s.[11]

And yet even as the world increasingly appeared on the verge of devouring itself, there were signs that the international economic order was changing. At least to some observers, imperialism and the hypertrophy of the international division of labor characteristic of the pre-1914 period appeared to be giving way to something new. As one well-placed participant-observer described it,

> One could speak of a new and modern epoch of the colonial – or better colonization – problem in an age marked by tendencies towards nationalization and industrialization. It is evident that in the long run all countries and colonies strive for independence and that the presently existing relationship between mother country to colony will develop more and more in the direction of the relationship England has developed to its Dominions. That is, the mother country must be an ally and not an exploiter. Carrying the analogy to those independent young countries which today display a powerful momentum in every way, it would mean that – viewed in the long term – the highly developed country that has been most active as an ally in developing existing opportunities will best secure its political and economic influence.[12]

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[9] See, e.g. "Plano geral de ação para organização definitiva do Exército em vista de seu papel na hipótese de guerra", Doc. #678, Fundo SA (Góes Monteiro), Arquivo Nacional, Rio de Janeiro.
[10] Duara, *Sovereignty and Authenticity*.
[11] This is a point made most powerfully in Dutra, *O ardil totalitário*, esp. 140–141.
[12] Dr. Max Ilgner, "Die Exportförderung im Rahmen des Vierjahresplanes, angefertigt auf Grund von Erfahrungen aus der Exportförderungs-Praxis und von Beobachtungen auf den ausländischen Märkten" ("Export Promotion in the framework of the Four Year Plan, prepared on the basis of experiences from the practice of export promotion and from observations in foreign markets"). BArch Berlin, R3101/33441. I am grateful to Stefan Eich for helping me to improve this translation.

The author of this statement was a director of I. G. Farben, Germany's largest corporation and one which has long been associated with Nazi imperialism in eastern Europe.[13] After the war he himself was convicted of "plunder and spoliation" for his role in Nazi economic activities in the occupied territories. The report from which this excerpt is taken was several hundred pages long, based on close to 1,000 interviews that Ilgner conducted with businessmen and government officials up and down Latin America in 1937, over 100 of which were with Brazilians. He would repeat the argument straight through until 1940. Contrary to what scholars have argued, not only was his reasoning shared by German officialdom, it had already been institutionalized several years prior to the publication of this report.[14]

Technology itself seemed to be working in the direction of a breakdown of the old international division of labor. The eminent American intellectual Lewis Mumford had written in 1934 that the world had entered into a "neotechnic age", characterized by technologies like electricity and aluminum construction,[15] all of which, in the words of a founder of neoliberalism, were transforming the "localization factors of production" and establishing a certain economic rationality for the industrialization of the non-industrial parts of the world.[16] Indeed the notion that at this very moment, thanks to technology, resource endowments – especially coal – were ceasing to be economic destiny is a foundational argument in a seminal article in American economic history.[17] Brazilians know well the progressive American engineer Morris Cooke. In his book on his experiences as part of the American Technical Mission to Brazil in 1942, Cooke wrote "Latter-day technological developments . . . have sealed the doom of typical nineteenth-century international trading, in which the stronger and more highly developed countries carried raw materials great distance to the home country for fabrication and then sent the finished goods to the four corners of the earth, where they were sold at generous profit to peoples not in a position to do their own manufacturing."[18] Thus Juarez Távora was not simply being pugnacious when, in 1937, he said,

> The economic and social climate of today isn't the same as that of yesterday, neither here nor abroad – therefore there is no justifying burdening the present and the future of an entire people with the errors and false preconceptions of half a dozen backward-looking individuals; and, furthermore, that we abdicate, ineptly and cowardly, the right to adopt an economic policy of our own, in order not to escape from the straightjacket that a few international financiers have foisted upon us – less to serve us than for them to take advantage of us . . .[19]

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[13] Tooze, *The Wages of Destruction*.
[14] For the claim that Ilgner's arguments were rejected by Nazi authorities, see Hayes, *Industry and Ideology*, 159–161.
[15] Mumford, *Technics and Civilization*.
[16] Röpke, *International Economic Disintegration*.
[17] Wright, "The Origins of American Industrial Success, 1879-1940."
[18] Cooke, *Brazil on the March*, 12.
[19] Tavora, *O Contrato da "The Itabira Iron Ore Co. Ltd."*.

The goal of my research, then, is to consider the interwar period as a moment in which one regime of international economic relations between “core” and “periphery” came radically into question, and to consider the steps – often tentative, sometimes only half-conscious, and rarely altruistic – that actors in *both the core and the periphery* took to forge a new regime. At its core are cross-border movements of goods and factors of production (including knowledge), *and the conditions by which those movements were organized*. The internationalization of steelmaking is the ideal field for studying this regime change because of steel’s dual importance as the preeminent input for armaments production and industrialization writ large, and because transforming countries that had previously been importers of steel into producers on a large scale necessarily implied changing the nature of the economic links between those developing countries and the countries that previously sold them steel. To Brazilians this is perhaps obvious: I am talking about the difference between establishing a domestic steel industry as set out in the terms of the infamous Itabira Contract of 1920, versus the extraordinarily favorable conditions of the U.S. Export-Import Bank financing of Volta Redonda in 1940/41. But a similar dynamic was at work across the world, and the exceptional conditions of the war are plainly inadequate to account for it.

The rest of this paper is divided into four parts. In the first part, I gesture at the extent of the internationalization of steelmaking in the interwar years, and briefly introduce the *dramatis personae* of that story. Second, I take up the relationship of sovereign debt – one of the crucial vectors of classical globalization – and why in the minds of many contemporaries this was linked to a relatively loose concept of “imperialism.” Next I lay out what I see as the connections between the Brazilian moratorium on the external debt of 1937 and the successful negotiation of a financing and technical assistance agreement between the U.S. and Brazilian governments in 1940. Lastly I present a very incomplete “model” for thinking about under what circumstances it was possible for peripheral countries to establish favorable relations with core countries in the 1930s.

I’ll begin the story with Farquhar. Brazilians know that Farquhar’s principal goal from 1919 until he was finally expropriated with the blessing of his own government and the government of his biggest financial backers in 1942 was to develop an iron ore export industry in the Vale do Rio Doce. Some number of the characters connected to Farquhar are well known to Brazilians, especially the Canadian head of Brazilian Traction, Sir Alexander McKenzie. But two key figures never appear in the historiography. The first is the New York financial house of Dillon, Read & Co. And the second is the British-born, German-trained, naturalized American steel engineer Hermann A. Brassert.

Dillon, Read was the investment bank that would have financed Farquhar’s scheme in the 1920s had it come off, and it was McKenzie who connected them, as DR had already issued bonds in New York for Brazilian Traction. The firm was also the official U.S. bank of the Brazilian Federal Government beginning in 1921, when it secured that role with the blessing of the British Rothschilds.[20] Clarence Dillon was raised in Texas, the son of Polish Jews who had Anglicized their name. He graduated from Harvard, served as an adviser to Bernard Baruch at Versailles, and after the war emerged as the most spectacularly brilliant and daring Wall Street financier of the 1920s. Because the traditional Anglophilia of the House of Morgan meant that the world’s most powerful financial house wanted nothing to do with German financing after it had underwritten European stability with the Dawes Loan in 1924, room was open for upstart firms like Dillon’s to conquer a booming field. One of the first major deals Dillon’s firm took on was issuing dollar bonds for the venerable German steel firm of August Thyssen & Co in 1925. To convince American buyers unfamiliar with German firms to buy up these bonds, DR hired the world-renowned steel engineer Hermann Brassert to evaluate the concern’s physical plant, market prospects, and financial conditions.[21] Dillon and Brassert would team up a second time in 1925 and again in 1926 for the same operation, culminating in the January 1926 $30 million bond issue for the creation of the Vereinigte Stahlwerke (United Steel Works), the giant trust modeled on U.S. Steel that would henceforth control 40% of the German steel industry.[22]

Brassert himself had a thick history with U.S. Steel. He had gone to work at the legendary Edgar Thomson works in the 1890s, where he trained under Julian Kennedy, who is considered to have made the great single contribution to American steel supremacy with his development of the “hard driving” blast furnace technique in the 1870s, and whose consulting firm later was responsible for designing and constructing the first modern steel mill in India, the famous Tata works, in 1907. Brassert subsequently moved to U.S. Steel’s South Works in Chicago, where he headed the blast furnace department, and ultimately became supervisor of the entire works. He was credited with perfecting the technique for smelting the fine Mesabi ores of Minnesota, and was considered a pioneer in the harnessing of coke oven byproduct gas for heating other parts of the works and also for commercial purposes. He was known to every steel executive and engineer in the world.

Farquhar met Brassert most likely through the good offices of Dillon, Read, and Farquhar hired him to design the steel mill he intended to build in Brazil.[23] But Brazil was not the only place where these two joined forces. In 1925, while matters were stalled in Brazil, Farquhar accepted an invitation from the Soviet government to study plans for a complete renovation of the iron, coal, steel, and railroad complex

[20] See Clarence Dillon’s testimony before the Senate Banking Committee in 1931, *Sale of Foreign Bonds or Securities in the United States*, 445–507; Sobel, *The Life and Times of Dillon Read*, 95–98. That Dillon, Read was previously unknown to the Rothschilds can be seen in an exchange of telegrams between the latter and the long-established Wall Street firm of Kuhn, Loeb & Co. Rothschilds asked Kuhn, Loeb for their assessment of the bank before entering into business with them. Kuhn, Loeb acknowledged that Clarence Dillon was a new arrival, but said that he was considered very able.
[21] Fear, *Organizing Control*.
[22] Reckendrees, *Das “Stahltrust”-Projekt*.
[23] I think Charles Gauld rightly took this as proof that Farquhar did in fact intend to build the mill in the late 1920s.

of Krivoi Rog in the Ukraine. Farquhar’s proposal was to raise a $40 million loan – ideally underwritten by Dillon, Read, in New York – that would be used to buy equipment from German manufacturers, who were already supporting efforts by the German government to further their rapprochement with the Soviet Union in order to reopen the vast Russian market to German manufactured exports.[24] Thanks to Dillon Read’s Germany-based partner Ferdinand Eberstadt, Farquhar gained access to Germany’s steel magnates, especially the largest shareholders of the Vereinigte Stahlwerke.[25] Farquhar hired Brassert to design the plans for this enormous scheme, and tried to leverage Brassert’s prestige to persuade the Soviets to move ahead with the proposal.[26] Later Brassert took it upon himself to try to interest German firms in the Brazilian project, especially the Gutehoffnungshütte, with which he had collaborated since the early 1920s.[27] The Soviets ultimately abandoned the plan and nothing came of it. But it gives a flavor of the international nature of steel developments in the 1920s. When in 1928 Stalin launched the first Five Year Plan – without question the most spectacular modernization project in the history of the world – his government hired a different American firm familiar to Brazilians – Arthur G. McKee & Co. of Cleveland, Ohio – to design and build the mill.[28]

Brassert was involved in other projects in the 1920s, including a dastardly scheme to use American capital to disguise a German takeover of the Polish Upper Silesian steel industry for explicitly revanchist ends[29], and he was hired as a consultant by the Bank of England to propose plans for a complete overhaul of the entire British steel industry.[30] His big breakthrough, which defined the terms of the steel industry for the 1930s, was construction of the Corby Works of Stewarts & Lloyds, which was to be the first mill purposely designed to use the low-grade iron ores of central Britain.[31] It was a spectacular

[24] See the correspondence in Politisches Archiv des Auswärtiges Amt (German Foreign Office) R94666, “German-American cooperation towards activity in Russia”, 1925-1927, and R31921 “Secret documents Vol. 77: Economy – Otto Wolff”, 1927-1928.
[25] Eberstadt diary entries from July 26 and July 27, 1926. Box 172, “Diaries, 1926-1948: Re: European Business Conditions: Information Prepared for Dillon, Read and Company, 1926 February 12 - December 1, 1927 August 2 - November 24” Ferdinand Eberstadt Papers, Seeley Mudd Manuscripts Library, Princeton University.
[26] "History of Negotiations of the Farquhar Group with U.S.S.R." Jul. 5, 1928. Percival Farquhar papers, Box 1, Hoover Institution Archives. Brassert’s vice-president Arthur J. Boynton even traveled to the Soviet Union in February 1928 to present their designs.
[27] Direktor Kellerman to Paul Reusch, 27. Apr. 1929 and 24. Aug. 1929. RWWA-Köln, 130-4001012003/14b.
[28] Kotkin, *Magnetic Mountain*.
[29] This is brilliantly laid out in Reckendrees, “Business as a Means of Foreign Policy or Politics as a Means of Production?”, but with no mention of Brassert’s role. The latter was hired by the American firm W. A. Harriman & Co. to conduct an audit of the properties akin to the reports he had produced for the German steel firms. The report is in Box 690, “Reports, 1925-1930”, W. Averell Harriman Papers, Library of Congress.
[30] Brassert’s activities in Britain in the 1920s and early 1930s are treated extensively in Tolliday, *Business, Banking, and Politics*.
[31] For Brassert’s own reflections on his achievement, see his lengthy two-part article in the official journal of the Nazi Four Year Plan. H. A. Brassert, “Erfahrungen in amerikanischen und europäischen Hüttenwerken. Mit besonderer Berücksichtigung der Verhüttung von Feinerzen” *Der Vierjahresplan* Jg. 3 Nr. 4, 20. Feb 1939, pp. 370-375, and Jg. 3 Folge 6, März 1939, pp. 472-476.

success, noted across the world, and Brassert’s prestige soared. Thanks in part to Corby, Brassert, heading a consortium of British firms, won out over the German Krupp in a bid to build a modern, integrated steel mill at Karabük in Turkey in 1936. The financing for that mill was acquired through the facilities of the British Export Credit Guarantee Department, which had been established as the world’s first governmental export insurance agency in 1919. Before the ECGD had financed the Turkish steel works, it had made moves into guaranteeing exports of capital goods for “really large contracts” in the “public utilities” field, specifically through guaranteeing financing for the electrification of the suburban lines of the E.F. Central do Brasil to the tune of £1.5 million.[32] Corby was also the reason why in 1937 Brassert was hired by Hermann Göring himself to design and supervise construction of what was to be the largest steel works in the world, and the centerpiece of the Nazi Four Year Plan bid for autarky, the gargantuan Hermann-Göring-Werke of the Reichswerke A.G. für Erzbergbau und Eisenhütten “Hermann Göring”.[33] A French acquaintance of Edmundo de Macedo Soares e Silva introduced him to Brassert on his trip to Europe in early 1939, and the latter visited the Corby Works and learned about the Turkish project. Brassert made introductions for Macedo Soares in his subsequent trip to the U.S., and sent him detailed proposals for an integrated mill in the spring of that same year. It seems likely that Macedo Soares’s insistence on the importance of any steel mill having attached coke ovens for utilizing byproduct gas was due to Brassert’s influence.[34] And in 1940, shortly after he fled Germany upon the outbreak of war with Poland, Brassert was touring Latin America in search of new business, and his firm was a finalist to build the Brazilian mill.

There were numerous other global steel projects in the 1930s, including several in China, some in India, one in Iran, one in South Africa, one in Yugoslavia, one in Rumania, several in Italy, and dozens

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[32] “A Short History of the Export Credits Guarantee Department” from July, 1948. ECG 5/2 (History of the Department), U.K. National Archives. The quote is from Dorman Long & Co. to the Foreign Office, 20. May 1932 in F.O. 371/16226, F4077/1309/10 (China, 1932, File 1309), “Development of British Interests in China”, UKNA.

[33] Brassert’s role is nowhere treated in sufficient detail, but the best account is in Riedel, *Eisen Und Kohle Für Das Dritte Reich*. In future work I will have much more to say about Brassert’s German activities, helped by documents I found in the records of the Reichswerke A.G. at the Niedersächsisches Wirtschaftsarchiv Braunschweig in Wölfenbüttel, Lower Saxony.

[34] Krupp fought incredibly hard for the Brazilian contract, as is documented extensively in the firm’s archive in Essen as well as the archive of the firm’s machine-making subsidiary Krupp Grusonwerk, in Magdeburg. Krupp’s proposal was to use its proprietary “Rennverfahren” (a rotating kiln) of direct reduction, which the firm had spent years developing and had just perfected. It entered into a major licensing agreement with Japanese firms to employ the technology in Manchuria and Korea. Brazil would have been a showcase for the technology. It was originally developed for a problem that was the opposite of Brazil’s, namely the absence of high-quality ore, as opposed to coal. The rotating kiln was able to produce 98% iron pellets out of a 35% ore with large amounts of impurities. But because it was a direct reduction process, it could also produce very high quality iron with practically any coal. Krupp thought the technology was perfectly suited to Brazilian conditions, but for Macedo Soares this would have meant getting steelmaking capacity but forfeiting the coke ovens whose byproduct gasses he was convinced would be the basis for new chemical and pharmaceutical industries. For Macedo Soares’s assessment of the merits of this technology, see his “Notas referentes à memória ‘Krupp’ de Agosto de 1939, apresentadas ao Sr. Presidente da República a 11 de Julho, 1940” in JT (Juarez Távora) dt Mineração e Siderurgia, beginning at image 167, CPDOC.

between Japan and its satellites in Korea and Manchukuo. In nearly all of these cases, there was competition either between British and German firms, or both of them and American firms – and sometimes between firms from the same country, especially in the case of Germany – to design and construct the mills, which would also mean sales of heavy equipment from their respective countries. In all cases backing of their respective national governments was indispensible, because the finances of all of the importing countries in question were such that none of them could be considered a safe credit risk by the exporting firms, much less their banks. Therefore firms turned to their national governments for a array of financial supports – ranging from credit guarantees to outright official loans – in order to win these contracts. Governments either adapted apparatuses that had been created for other purposes – as did the British with the Export Credit Guarantee Department and the U.S. with the Export-Import Bank, or devised entirely new apparatuses specifically to guarantee credit for exports of capital goods to foreign governments, as the Germans did when in 1928 they established an intergovernmental "Export Guarantee Committee for Government Business" and set out specific rules for extending credit in large amounts to governments and quasi-governmental bodies.[35] Governments repeatedly proved receptive to exporters' pleas, for reasons that the following words from a British official regarding Turkey make plain:

> if we miss the opportunity of getting the steel works contract, it will certainly go to Krupps. We know that the Germans are prepared to make almost any sacrifice in order to re-establish their economic – and probably now their ultimate political – influence in the Middle East. They have been making a great drive in Persia with considerable success. They are now within an ace of obtaining a large railway contract in northern Iraq. If they secure this steel works contract in Turkey too, it will materially help them to consolidate their position throughout the Middle East, and we may well have cause to regret, not only economically but politically, the passive attitude which will have made us lose this opportunity.[36]

Britain, in other words, was in political and economic competition with Germany. The effect of this competition – as the results of the subsequent negotiations would show – was highly favorable to Turkey economically and politically. Economically, Turkey managed to negotiate a low interest official loan from the British Government for a state-owned steel works that would anchor its overall plans for industrial development and national defense (in the end the British conceded an interest rate that they felt was more a gift than a loan). Politically, it managed to offset Germany's predominant share of industrial exports to Turkey, which functioned as a hedge against economic dependence leading to an undesired drift into Germany's political orbit.

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[35] Vits, "Ausfuhrförderung durch staatliche Exportgarantien in Deutschland und anderen Ländern." I have collected a vast amount of documentation on this body from the German Federal Archives in Berlin. It was a program responsible for awarding governmental guarantees to hundreds of millions of Reichsmarks worth of exports, many of them explicitly tied to official industrialization programs in developing countries, but it has passed entirely unremarked upon in the vast literature on German firms and business-state relations in the interwar period.

[36] "Financial situation in Turkey." Jan. 16, 1936. FO 371/20070, E254/23/44, UKNA.

For the Turkish government, this was a major development. Before World War I, economic-cum-political competition for major government contracts had exacerbated the profound weakness of the Ottoman Empire. In a position to demand much in return for investing their capital in the Ottoman Empire, European banks and governments had insinuated themselves deep into the workings of Ottoman public finance, to the extent that foreigners often had a greater say in the allocation of budgetary resources than did the Ottoman government itself. Because the Powers had interests that spanned far beyond Turkey, they were willing to use their power within Turkey to weaken the Sultan's government and put control of Turkey to their own purposes.[37] That things had changed after the war was lucidly registered in a conversation that a Gutehoffnungshütte official had with agents of the Deutsche Bank in Turkey, when the former was trying to ascertain if the bank would finance a steel works project that GHH was considering.

> On the basis of a newspaper article, observing that the Deutsche Bank states that it wishes to do no further financing in Turkey, or only under such strict conditions the likes of which the Turkish Government will never grant, I asked the gentlemen what in fact the reasons were for the Deutsche Bank's refusal to participate in the railroad construction. They explained to me that the Deutsche Bank still had not been able to get accustomed to the fact that Turkey today stands differently than before the war, where one could easily dictate conditions to them; that Turkey as a young state ["junger Staat"] demonstrates an entirely different striving for self-sufficiency ["Selbständigkeitsbestreben"] as before, and that one must position oneself opposite Turkey entirely differently than before.[38]

This was enough to keep a private German bank from financing large-scale capital improvements in a developing country like Turkey. Before the war, that would have left the Turks without any other options. But now matters were different. The Turks could refuse the onerous conditions of imperialist loans, and still expect to secure financing for their economic development goals, because the German, British, and American governments wanted the export business more than they wanted to backstop the ability of their bankers to secure extortionate terms for the privilege of employing their capital. A part of British officialdom did not share this view: indeed the British Treasury actively tried to prevent Britain from financing the Turkish steel mill because the Turks were at risk of defaulting on payments of the Ottoman Public Debt. But this argument did not prevail.

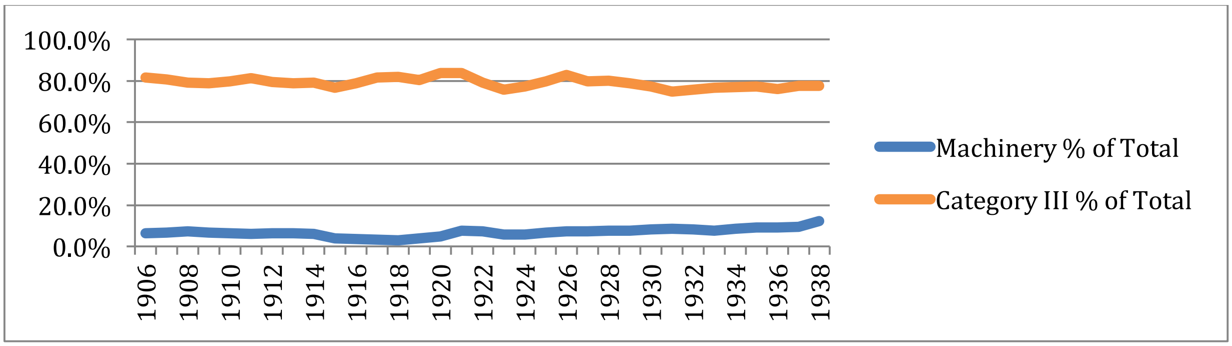
To make the point even more explicit, both before the war and after, Turkey's motivation in borrowing money is precisely encapsulated in the geopolitical logic of modernization I discussed above. The difference is that before the war, the conditions on offer to Turkey in exchange for the resources necessary to modernize ultimately made the country weaker. After the war, Turkey was able to get the

[37] The travesty of this logic is lucidly reconstructed and bravely denounced in Earle, *Turkey, the Great Powers, and the Bagdad Railway*. I second Caglar Keyder's judgment that this book is "an indispensible study of imperialist rivalry." Keyder, *State and Class in Turkey*, 234.

[38] Dir. Wedemeyer of the Gutehoffnungshütte, Abt. Sterkrade, recording a conversation with Dr. Alexander and Dr. Lebrecht of the Deutsche Orientbank (a subsidiary of the Deutsche Bank) regarding the policy of the Deutsche Bank in Constantinople. 1927 (n.d.). RWWA, Köln, 130-4001012003/1.

resources it needed for modernization in such a way that strengthened its sovereignty. Obviously the world after the war was different from the world before it. Inter-imperial competition, as has been suggested in accounts that treat the interwar period as a period without a "hegemonic stabilizer", cannot be the whole story. It was precisely inter-imperial competition before the war – as Hobson and Lenin recognized – that made classical imperialism such a threat to the sovereignty of weaker states. Other things had to have changed.

One key difference is what officials and businessmen in Britain, Germany, the U.S. and elsewhere predicted for the economic future of their own countries and of developing countries like Turkey.



This graph tells a simple story, and one that would look similar in both the U.S. and Germany. Over time, capital goods were making up an increasing portion of the industrialized countries' export bill. In the case of the U.S., this largely took the form of increasing manufacturers of all sorts, diminishing the percentage of agricultural goods. But in the U.K., as the chart shows, the overall percentage of manufactured goods was roughly stable, and this was true for Germany as well. What changed was the composition of manufacturing exports – away from consumer goods, like cotton textiles, and towards producers goods, like machines. Extrapolating from this, it could be argued that the future of British exports lay with the industrialization of developing countries like Turkey. And, indeed, British officials made precisely this argument. There was a distinct risk that "if we do not manage to get hold of this key order for the Turkish iron and steel works, and, so far as may be possible, for other capital goods which may be needed by Turkey, we may . . . find ourselves, in a few years, faced with a loss of the market for consumption goods and without any footing at all in the market for capital goods". In other words, not only British politics but the British economy depended on establishing a new relationship with countries like Turkey, one that privileged exports of the capital goods that those developing countries did not produce. Turkey and Britain would benefit – or, at least, export-oriented British firms and their employees. The bondholders would have to take a back seat.

There are hints of another possible difference between the world before the war and after. Turkey and Brazil succeeded in securing financing on favorable terms for the implantation of large, modern, integrated steel works. Nationalist China attempted for most of the 1930s to do the same, and the German Gutehoffnungshütte and Krupp actively tried to win the deal, but both found it more difficult to win the kind of support from their government that would have led to the deal being concluded. The evidence is clear that what the German government feared was that the Chinese state was so weak and Japanese aggression was so fierce that there was no guarantee that the Chinese state would still exist when payments on the loan came due in just a few short years. Were it not for this fear, the German government would have overcome its concerns about the woeful state of Chinese customs revenues. In Turkey, meanwhile, the strength and nationalist orientation of the government was an argument in favor of extending it official loans. Not only was there no doubt that the young Turkish Republic would persist, but the young state's power over the economy meant that when the U.K. and Turkish governments agreed to a payment plan that involved selling increased output of strategic minerals from Turkish mines to British manufacturers, the British believed that the Turkish government could deliver on this pledge. If David Landes was correct many years ago that bankers have always preferred to lend to strong sovereign states[39], it is also the case that bankers were willing to lend (at a premium) to weaker states precisely because they had reason to believe that their governments would apply political pressure – up to and including military intervention – to force repayment. For a variety of reasons, the gunboat option had been ruled out in the 1930s. As a result, the strong state argument prevailed. But whereas British bankers of the pre-1914 period would have considered the aggressive economic interventionism of the Kemalist state an argument against extending credit, in the 1930s the very strength of Turkish nationalism was an argument in favor of favorable loans.

For contemporaries, the difference between the types of agreements they entered into with European capitalism before the War and the deal that the Turks secured in 1936 was the difference between imperialism and something else, variously called "international economic cooperation," or, more commonly, "economic independence." Bouças, in the same work I cited above, gave the Brazilian version of the story:

> the three great economic eras of our history can be defined in the following form: in the colonial period, Brazil worked for Portugal; during the Empire, as a semi-colony, it worked for European finance; in the Republic, still the same, and further for international finance. Only now in the present period, having settled her accounts with the so-called foreign creditors, Brazil works for itself and this is half the battle towards Brazil's economic independence. The other half is industrialization, whose stage effectively begins with the steel industry.[40]

Bouças was like many in his time and later who located the truth of imperialism in sovereign debt and the power of international finance. There were many versions of this story, within countries as well as

[39] Landes, "Some Thoughts on the Nature of Economic Imperialism."
[40] Bouças, *Independência Econômica*, 5. Bouças is referring to the debt agreement of 1939 and the steel works at Volta Redonda that was about to break ground, having secured financing from the Export-Import Bank in 1941.

between them, but they all shared a similar logic. They largely followed Hilferding and others in observing that in Europe and America there had been a fusion of industrial and financial capital, with finance in the drivers seat. They noted that these combines had won extraordinary influence over their national governments, and were able to mobilize the power of their national states behind the interests of bondholders (e.g. "gunboat diplomacy.") And they observed that their own countries' reliance on foreign loans gave foreign creditors a remarkable amount of leverage over their own economic policy.[41] Of course such analyses could range from the conspiratorially anti-semitic, as with the properly fascist Gustavo Barros[42], to the rather dogmatically Leninist, as with Luis Carlos Prestes[43], but it is much more interesting to observe that this was a view shared by many who were hardly of the extreme left or right. An unsigned front-page story in the *Diario Carioca* of June 19, 1928, entitled "We must be free men, and not slaves and suicides", explained to readers that

> Foreign loans are like paper money issues. Each loan, each issue generates a new loan, a new issue. And it continues. Meanwhile, we are, at best, a semi-colony of imperialism or capitalism. With the way things are going, we are seriously compromising our future, the existence of our national autonomy.
> From the same imperialism, we have already asked for two moratoria, and it will not be strange if shortly we shall have to ask for a third. It may grant it to us or it may refuse. If it refuses, and it can refuse, before long it will turn is into its colony. It will appropriate all of the goods which we have given to it as security, in guaranty: and it will establish itself here with its flags, with its laws, with its government.
> This is how things began with China. And we have many points of similarity with China.[44]

Thus while such views may not have been common among the Paulista elite, for those who supported the Revolution in 1930, the idea that one salutary effect of deposing Washington Luis's regime would be an end to the mortgaging of Brazil to British and American creditor-imperialists was not an unusual one. Indeed, my view is that all of the cries for restoring Brazil's sovereignty from the Revolution up through the Estado Novo coup and beyond must be studied with this external determination in mind. Even though in the writings of the revolutionaries one sees far more frequent mention of oligarchs and caciques, of dictatorship and the immiseration of the Brazilian *povo*, this was intimately and even subconsciously connected to a belief that the risk to Brazil if it did not reform its political institutions was not merely internal disarray and lawlessness, nor military defeat at the hands of its neighbors, but colonial

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[41] See the fascinating dialog with Marxist theories of imperialism from the Integralist theorist Miguel Reale, in "O Capitalismo Internacional: Introdução à Economia Nova." For a discussion of the role of imperialism in integralist thought, see Trindade, *Integralismo*, 234–238.
[42] Barroso, *Brasil, colônia de banqueiros*.
[43] Luiz Carlos Prestes, "Manifesto de Maio", 29. Maio, 1930.
https://www.marxists.org/portugues/prestes/1930/05/manifesto.htm
[44] "Sejamos homens livres, e não escravos e suicidas", *Diario Carioca*, 19. Jun., 1928, p. 1. (Given that the article was unsigned, it is likely that it was written by its editor, José Eduardo de Macedo Soares, brother of José Carlos, who served Vargas as Minister of Foreign Relations and Minister of Justice up until the Estado Novo coup, and cousin of Edmundo de Macedo Soares e Silva, the army metallurgist and proud *tenente* who was at the center of all efforts to develop a domestic steel industry in the 1930s and 1940s. On the family connections, see Macedo Soares e Silva, *Um Construtor Do Nosso Tempo*.

subjugation and the end of an autonomous Brazilian nationality itself. That the steps taken by the Provisional Government did not look very much like a rebellion against the country's creditors has to be put in context: there was no blueprint for economic autonomy in 1930, with perhaps the exception of the Soviet Union, which, it should be said, was barely known to Brazilians. Besides, balanced budgets *could* be understood as a nationalist response to the power of creditors: if deficits had traditionally meant an increase in foreign loans, with all of the mortgaging of tariff revenues and other humiliations to national sovereignty that these entailed, then running a balanced budget was a way to weaken the creditors' grip. This, in any case, is the only way I can account for the repeated associations of patriotism and sound public finance that one sees in the statements of *tenentes* and other revolutionaries in 1930 and the years immediately following.

In some cases, the question of the foreign debt could itself be a force in driving political actors to take up more oppositional political stances. It is well known that the director of the Carteira Cambial of the Banco do Brasil, Marcos de Souza Dantas, left his post in early 1935 over the government's refusal to heed his advice and suspend payment on the foreign debt, and that immediately after returning from England as a member of the Missão Souza Costa, he publicly announced his decision to join the Ação Integralista Brasileira, later becoming a member of its inner council. I am not aware, however, that anyone has looked closely at the structure of Dantas's reasoning. In a letter to Souza Costa in December, 1934, in which he sought to make the latter aware of just how severe the exchange crisis really was, Dantas expressed his fears as following:

> These contracts cannot be fulfilled, and they have not been fulfilled for a long time, because you can not tell someone to pay who asks for loans from one in order to pay others. These guarantees cannot be executed, since they would require the alienation, pure and simple, of our sovereignty. According to the terms of the contracts, if we are unable to pay, our customs houses will be occupied, our taxes will be collected by our creditors, and we'll have nothing with which to pay our armed forces, the bureaucracy and public services, the internal debt. The creditors will substitute themselves, in Brazil, for the public authority. It would be the end, the annihilation, the death of our nationality. [Seria o fim, o aniquilamento, a morte da nacionalidade.][45]

O "fim, o aniquilamento, a morte da nacionalidade": these are strong words, especially for a country that was in no real danger of foreign invasion. But I think it would be wrong to read them as hyperbolic. To me they sound exactly like the words of someone who thinks his nation is experiencing a "crisis of survival" along the lines of what Geyer and Bright suggested. This could be, and nearly always was, linked to domestic political questions, but causation did not always or even principally run from domestic politics to international economics. In Dantas's case, at least, it went the other way. The connection between foreign debt and national sovereignty was its own axis of political contestation

[45] Marcos de Souza Dantas to Arthur de Souza Costa, Ministro da Fazenda, 13 Dec. 1934, SC (Sousa Costa) mf dg 1934.07.23, CPDOC.

Even Brazilians who were resolutely believed that Brazil should lean diplomatically towards the United States – like Bouças – nevertheless felt aggrieved at the hands of financiers. Bouças drew attention to the famous 1931 U.S. Senate investigation into the "Sale of Foreign Bonds" for outside affirmation that U.S. bankers had deliberately engaged in unscrupulous and even fraudulent behavior in their hunt for Brazilian clients, especially in the municipalities and states. And Farquhar's opponents frequently used his connections to Wall Street and the hated (by nationalists, anyway) "Light" to demonstrate that Itabira must be the front for imperialist designs on Brazilian sovereignty.[46]

This external determination of Brazilian nationalism in the 1930s, however, frequently falls out of view in broader discussion of Brazilian politics in the period. The rise of far left and far right challenges to Brazilian state and society are treated, by and large, as purely domestic affairs. Just to take one particularly extreme example, the fact that there were indeed foreign communists involved in the failed Communist uprising of 1935 is systematically downplayed, in order to justify the view that the communist threat could only have been a pretense for the decision of Vargas and especially the top military brass in 1937 to press ahead with the coup. Instead, it seems to me that the perceived foreignness of communism was not merely perception; in this moment, the idea that foreign agents – whether communists or financial capitalists – could insinuate themselves into the body politic, and that the result could be the disappearance of an authentic Brazilian sovereignty – in Geyer and Bright's terms, the total destruction of Brazilians' capacity to produce an autonomous history – was neither unusual nor unfounded.

If the Esatdo Novo coup was indeed about ensuring Brazilian sovereignty against both internal and external threats, it stands to reason that the Government's program of action following the coup would have been directed towards the measures that would best defend the nation against those threats. Vargas indicated what these measures would be in a letter to Aranha, just two days before the coup.

> Confronted with such a grievous state of affairs, at some point there had to be a reaction. The armed forces . . . recognized the alarming advance of the communist surge and with justification requested the reestablishment of the state of war. There really wasn't any other measure to take. The Constitution in effect is not an instrument which one can be utilized for the defense of Brazilian society against the communist infiltration. It weakened and softened the central power. . . . There emerged the idea that the Government itself should revise the Constitution, correcting it and updating it, then to submit it to a popular plebiscite. While this work is being finalized, we would take advantage of the opportunity to put into execution a wide-reaching administrative program capable of opening new directions for the economic life of the country, and permitting initiatives of great importance, for example: - the coffee plan, so imperative

[46] For Bouças's invocation of the U.S. Senate Banking Committee investigation, see "Relatorio dos Trabalhos Executados pela Comissão Technica dos Estudos Economicos e Financeiros dos Estados da União, sob a Dirreção do Sr. Valentim F. Bouças, Diretor Geral dos Serviços Hollerith" (s.d.) in Fundo 35 (Gabinete Civil da Presidência da República) Lata 38, Folder "Sem Data", AN-Rio. Farquhar's connections to the "Light" were taken up at length by Raul Ribeiro da Silva, "Industria Siderurgica e Exportação de Minério de Ferro: Estudo, Projecto e Proposta apresentados ao Governo Federal" in Fundo 1U (Conselho Federal de Comércio Exterior) Processo 702/V.6, AN-Rio.

> that it proved necessary to accelerate it; the revision of payments on the foreign debt; modifying the exchange regime to favor exports; giving new taxes to the federal government to stimulate an increase in revenue; rapidly equip the armed forces; equip the railroads; definitively confront the steel problem, etc. etc.[47]

In its public statements the government would never fail to insist that it was driven to declare a moratorium because of an exchange crisis that was not of their making. But Vargas’s statement suggests that a more deliberate plan was at work. This is confirmed in a lengthy telegram which the Minister of Foreign Relations sent to Aranha the day before the coup, giving him his instructions as to how to manage the inevitable outcry that would ensue from the Americans:

> …the Government will take the bold, but saving measure of suspending service on the foreign debt with the aim of examining more closely, and fixing by common accord, the real and rational possibilities of satisfying our foreign commitments. Meanwhile, with the exchange freed up by this drastic measure, we will continue with the policy of restoring the freedom of commerce in general, whose first step was the freeing of coffee, which cannot fail to have produced the best impression in all of the world’s markets. Concomitantly, based in the same [free-up] resources, the Government will promote all of our possibilities for increasing the national wealth, in order to assure for Brazil the economic situation that global competition will allow it. Another consequence of this policy will be, forcefully, the modernization, improvement, and development of our industrial apparatus and our transportation system, intending to provide full expansion to means of circulation by land, sea, and air, something which applies equally to the most urgent necessities of our defense and security as well as our foreign policy, in order to achieve the noble and vital objectives, among which the Government will also supply the pressing and just claims for war material for the army and the navy, which the lack of financial resources has reduced to the most complete and dangerous inefficiency. With the same perspective, we will establish a steel industry in the country, which will round out the complete solution to our military problem.[48]

In other words, the decision to *finally* declare a moratorium was provoked by the exchange crisis, but in fact it was part of a conscious decision to pursue an entirely new economic policy.

Of course, one of the first and most decisive acts Vargas took in the wake of the coup was indeed to declare a moratorium on the payment of interest and principal on the foreign debt, reasons for which he presently eloquently in his speech of Nov. 20th. He avoided use of the term “imperialism,” since he was deliberately treading a fine line and wanted to minimize the diplomatic repercussions of this inflammatory move, but otherwise his logic hued closely to that of the polemicists: Brazil could not be truly sovereign so long as it was being held hostage to the demands of its creditors, and it was no longer willing to condition its modernization on appeasing them. Brazil made very effective use of its newfound financial freedom. According to Villela and Suzigan’s figures, in 1938 Brazil was able to run a significant current account deficit for the first time since 1920, with no particularly negative consequences. The

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[47] Getúlio Vargas to Oswaldo Aranha, 8. Nov, 1937. OA cp 1937.11.08/2 (rolo 15), CPDOC.

[48] SC mf dg 1934.12.03, Pasta I, CPDOC. Francisco Corsi is the only scholar I am aware of who has sought to make the connection I am working towards here, but his evidentiary base was extremely thin, and so his arguments are only suggestive. Nevertheless I generally agree with his conclusions. Corsi, *Estado Novo*. In the case of connection between the coup and the default, his only source is Vargas’s public speech announcing the creation of the Estado Novo.

government’s contribution to fixed capital formation was almost six times higher in 1938 than in 1937, and in 1938 it was three times higher still than in 1937. Curiously, Vilella and Suzigan’s figures show the biggest single component of this surge was in a category called “Construções Diversas”, and a significant portion fell under “Equipamento e Instalações.”[49] Without knowing the precise sources it’s impossible to say anything more definitive, but it seems likely that a very significant portion of this figure was new installations for producing munitions and armaments.

It is fascinating to note that in 1939, when Aranha was in discussion with the Americans, Vargas continued to perceive the question of the debt as of such political sensitivity that he instructed Souza Costa to cable Aranha to the effect that Aranha should strive at all costs to avoid making any mention of the debt in the public statements accompanying his discussions with Secretary Hull and Under-Secretary Welles. As Costa put, “whatever express commitments that you must assume in relation to the subject will spoil the [otherwise positive] effect of the invitation of the American Government, giving the impression that the purpose of the negotiations was merely to provide resources for the payment of the foreign debt.” And if he did feel he had to say something about the debt, it should be made clear that any repayment would have to be contingent on an improvement in Brazil’s overall economic situation. It seems likely that Aranha exceeded his authority in announcing that Brazil would resume payment in July of that same year, as an intermediate step on the way to a final resettlement of the debt question.[50]

Whether or not the very top of the military hierarchy was especially enthusiastic about devoting energies to developing a domestic steel industry in the 1930s, it was the strongly felt links between steel and sovereignty that gave the overall movement its momentum.[51] Economic growth and industrialization were understood as key determinants of national strength, and, to reiterate, national strength was not just a question of *amour-propre*, but a question of survival in a hostile world. All of this, in turn, cannot be separated from the question of the foreign debt. When in January, 1940, the Finance Committee of the U.S. Steel Corporation declined to invest in a steel mill in which they would have been 50% owners, its reasoning – never made public and only hinted at to the U.S. Government – was the poor treatment its directors felt that American bondholders had received at the hands of the Brazilian government, and the fear of a rising economic nationalism across the continent visible, for example, in the recent move by the Cardenas government to nationalize the Mexican oil industry.[52] Even though the deal with U.S. Steel

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[49] Villela and Suzigan, *Government Policy and the Economic Growth of Brazil, 1889-1945*.
[50] Souza Costa to Aranha, sent via telegram from the MRE, 03.03.1939. SC mf dg 1938.11.12/2, CPDOC.
[51] The argument that the military could not be considered responsible for Volta Redonda was first made forcefully by Stanley Hilton, and then even more adamantly by I. Tronca. Hilton, *Brazil and the Great Powers, 1930-1939*; Tronca, “O Exército E a Industrialização.”
[52] For Lamont’s views on Brazil’s creditworthiness, “Proposed Participation by the Corporation in the Brazilian Steel Industry,” Dec. 29, 1939. 227-12: “United States Steel Corporation, 1939”. For the fascinatingly ambivalent mood within the company about the Brazilian project, see the special report that several company experts prepared

would have meant that some portion of the profits of the steel industry would have flowed to the U.S., still this was viewed as an improvement on the terms that Farquhar was offering. The eventual agreement between the Brazilian and U.S. governments for a 4% loan of $20 million, followed by an additional loan a year later, represented quite simply the best terms for accessing foreign capital that the Brazilian government had ever contracted in its history, and it was granted in full recognition of the fact that it would be probably be interpreted as the U.S. government tacitly condoning the 1937 default. It represented not merely, as Bouças had indicated, a movement from laboring on behalf of European and international finance to laboring for itself, but the enlistment of a foreign government in active support of that effort, at the expense of that country’s own powerful financial and industrial interests.[53] If indeed one official loan from the U.S. Government did not destroy the imperialist tendencies still present within the international economy, nevertheless it offered a glimpse of a possible post-imperialist future, founded on cooperation, rather than exploitation. This, along with its contributions to national industrialization, helps to explain the extraordinary pride that Brazilians took in having finally solved “our steel problem.”

Given that securing official core country support on favorable terms for industrialization projects whose stated intent was the strengthening of those peripheral countries’ sovereignties against military and economic threats to them that often emanated from those very same core countries was not unique to Brazil, I see value in developing a loose “model” specifying under what conditions countries were able to secure this kind of aid, and under what conditions they weren’t. What follows are two matrices laying out what I believe are the most important parameters determining whether a deal did or did not get struck in the 1930s.[54]

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in late December, 1939. “Proposed Participation by the Corporation in the Brazilian Steel Industry,” Dec. 29, 1939. 227-12: “United States Steel Corporation, 1939”, both in Thomas W. Lamont Collection, Harvard Baker Library Historical Collections. Some of Lamont’s views are laid out in Lamont to Voorhees (U.S. Steel Finance Committee), Jan. 4th, 1940. 227-13, “United States Steel Corporation, 1940”. TWLC. At least one Brazilian was aware of the key veto power exercised by Lamont. See Panteado (Brazilian consul in New York) to Edmundo de Macedo Soares, 11. Jan, 1940, EMS (Edmundo de Macedo Soares e Silva) f. publ. 20.01.05 (Rolo 1, Pasta III), CPDOC. Also Panteado to Vargas, 8. Jan., 1940, GV c 1940.01.09, CPDOC.

[53] Elsewhere I have indicated the extent of the transformations not just in the politics but in the institutional balance of power between the executive and the Congress that was necessary for the U.S. to be able to assist Brazil in this endeavor. Furthermore, the negotiations between the representatives of the Brazilian government and the ExIm Bank dragged on for several months after the exchange of letters in September, 1940. Macedo Soares believed that the explanation was that U.S. steel producers had mounted a lobbying campaign to prevent the U.S. government from assisting in a project that would cost U.S. steelmakers a lucrative export market, and set a precedent for other countries to do the same. See Macedo Soares to Ary Torres, 31. Dez. 1940, EMS f. publ. 20.01.05, Pasta III, CPDOC.

[54] An exercise not altogether different from this one was attempted in the early 1970s by Carlos Diaz-Alejandro, but his conclusions were eclectic and geared towards charting new policy directions for the moment in which he was writing. Nevertheless the piece makes for fascinating reading. Diaz-Alejandro, “North-South Relations: The Economic Component.”

(a) Developing Countries

	China	Turkey	Brazil	Likelihood of deal increasing or decreasing with
External threat to political independence	High	Low	Low	Decreasing
Sphere of Influence	Medium-High	Low	Medium	Decreasing
Perceived strategic value	High	High	High	Increasing
Perceived industrialization prospects	High	High	High	Increasing
Domestic industrial capital	Weak	Weak	Moderate	Decreasing
Ability to collect revenue	Weak	Strong	Strong	Increasing
Domestic strife/separatism	High	Low	Medium-High	Decreasing
Democracy?	Low	Low	Medium 1934-1937; low 1937-1945	Decreasing (?)

(b) Industrialized Countries

	Britain	Germany	U.S.	Likelihood of deal increasing or decreasing with
Creditor v. Exporter Interests	Lean creditor	Exporter	Lean exporter	Exporter
Ability to absorb additional imports	High	High	Medium	Increasing
Firm concentration in steel industry	Low	High	Very high	Increasing

Steel firm forward integration into machinery making	Low	High	Low	Increasing
Importance of export markets for basic steel products	Specific to bilateral relations	Specific to bilateral relations	Specific to bilateral relations	Decreasing
Golden fetters	1925-1931: Yes 1931-1940: No	1925-1929: No 1929-1933: Yes 1933-1945: No	1921-1934: Yes 1934-1945: No	Decreasing
Capacity/desire for world-ordering	Desire, yes. Capacity, no.	Desire, yes. Capacity, only continental Europe	Capacity, yes. Desire, no, until late 1930s	Increasing
State capacity to organize capital	Low	Medium-High	Low, but increasing in 1930s	Increasing
Capital capacity to organize the state	Low-medium	Medium-High	Medium	Increasing, so long as internationalist firms are gaining preponderance over protectionist ones

I do not propose that the logic here is linear, but it does suggest that, at least between China, Turkey, and Brazil, Turkey was the best positioned to strike a deal, and China the worst. Among the exporting countries, Germany was always going to be the most aggressive in pursuit of these opportunities, because of the weakness of creditor interests, the level of steelmaker forward integration into machine-making (among Germany’s largest steelmakers, both Krupp and the Gutehoffnungshütte were also builders of steel mills, thus losses of markets for rails, for example, could be compensated for within the same firm by sales of rolling mills or steel converters), and the close cooperation that had developed between the German government and large firms around export promotion since the mid-1920s. Whether the U.S. or Britain was more likely to pursue such deals depended on circumstances and on the relative strategic weight that each country placed on the developing country in question. The strength of the creditor lobby in Britain worked against these deals, whereas in the U.S. it was much weaker relative to exporters, and getting weaker still as the 1930s wore on. On the other hand Britain’s continued desire for strategic relevance in much of the world (like the Middle East and East Asia) worked in favor of it striking deals of this sort, as did its extraordinary openness to all manner of raw material imports, which gave it considerable flexibility in devising payments schemes.

In the 1930s, much of the world felt it was experiencing a "crisis of survival." But this was not simply a reaction to German, Italian, and Japanese aggression or Soviet infiltration. Instead it was the conclusion that many countries in the world came to in light of their reflections the totality of global historical development leading up to that moment. At the center of this fear was a belief that sovereignty – which I understand, following Geyer and Bright, as the capacity to produce autonomous histories, or, as the Brazilians put it, the existence of a Brazilian nationality as such – was threatened in numerous directions. For a country like Brazil, subjection, if it were to come, would almost certainly not be at the hands of its neighbors, even if they might harbor aggressive views, but from its creditors, who through the concessions they would extract in return for extending credit lifelines would strip Brazil of the mastery of its own historical destiny. In the 1930s, in Brazil as in most of the world, the response to this threat was self-conscious projects of modernization, intended to have the immediate effect of fortifying the nation's capacity for defense, especially military, but in the longer term to make it wealthier, more productive, and more independent. As Francisco Campos put it in 1938, it would be "an exaggerated innocence, if not an exaggerated malice" to assume that a company like Itabira would develop a "spontaneous interest" in the development of a Brazilian steel industry which would direct compete with those interests which the Itabira project would principally serve – namely foreign steelmakers.[55] And yet, the resources for Brazil's program of national economic development, with steel at its heart, were forthcoming from those very countries, at the expense of powerful domestic interests, and not simply for political purposes. Other interests in those countries and shifting attitudes about the international economic order led many to conclude that a new regime of international economic relations was fast approaching, like it or not. The country that got in on the ground floor would be the one to reap the greatest reward.

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[55] Francisco Campos, "Itabira Iron Ore Co.", 14. Apr., 1938. GV confid 1938.04.14, CPDOC.

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