

Brazil Resumes Cash Payments

Brazil is destined to play a great role in the future political and economic life of South America

By W. W. SWANSON, Ph.D.

Occupied as we have been in domestic affairs, few Canadians have taken time to study economic conditions elsewhere, least of all, in South America. And yet Canada has a large stake in the South American continent, notably in Brazil. It is news to the majority of Canadians that this great Republic was obliged to suspend cash payments on its national debt, held by foreigners, at the outbreak of hostilities, and has only recently resumed payments thereon. Although Canada has neglected the South American field—with the exception of our chartered banks—the United States has given serious attention to trade possibilities there. Beyond doubt the republics below the equator will furnish a tempting field, in the near future, for trade expansion; and therefore in view of this fact, and because of our heavy investments in Brazil, it may prove profitable to pass in brief review the chief facts bearing on the economic situation in this Portuguese Republic.

SALIENT FACTORS.

First of all, consider the salient geographical and ethnical factors in Brazil's commercial life. The Republic has a population of some 22,000,000—being about two-fifths of the total population of South America. Its foreign trade is exceeded by that of the Argentine Republic, although the latter country has a population only equal to that of Canada. The area of Brazil is equal to that of the United States; but the greater part lies within the tropical, and the sub-tropical, zones. In truth the larger part of the country is untillable, especially the dense forest and swamp lands in the basin of the Amazon. A range of mountains running in a south-easterly direction along the coast cuts off the moisture-laden winds from the Atlantic, with the result that the tablelands in the south are arid and sterile, and altogether unfit for agricultural purposes. The richest regions of Brazil are in the extreme south-east, where coffee-growing is the main industry. It is in this section that four-fifths of the world's coffee crop is grown. It may be here observed that Europe takes about 60 per cent of the coffee crop of Brazil, the remainder going to the United States, and of this two-thirds entering the port of New York. As is well known Sao Paulo is the chief coffee-growing province, and the city of the same name the centre of the coffee trade. Santos is the port through which Brazilian coffee is shipped to Europe and America. In addition to coffee, Brazil produces rubber in the Amazon basin, sugar, cotton, tobacco, cocoa and brazilwood. The Brazilian government has done its utmost to stimulate manufacturing, but at present the majority of the industries of the country are operated only in a primitive way. In an effort to increase its export trade, Brazil grants bounties on wheat, and remits duties upon agricultural machinery, fertilizers and other materials used for farming purposes. The country has experienced a considerable railroad development, but nevertheless main reliance is placed upon its wonderful water-ways for traffic purposes. Manaus is an ocean port although situated 1,000 miles up the Amazon from Rio de Janeiro. The country possesses 10,000 miles of inland waterways, navigable by ocean-going steamers, and 20,000 upon which light-draught vessels ply their traffic. As everyone knows the Germans have established a considerable colony in southern Brazil, but in recent years Italians have formed the majority of immigrants seeking new homes in the Republic.

Brazil is a nation of paramount importance in South America, and is destined to play a great role in the future political and economic life of that continent. The language spoken is the Portuguese, but the United Kingdom monopolizes the bulk of its trade; although before the war a very large trade was carried on with Germany and Italy. Strange to say, Liverpool is nearer Rio than New York, it takes only fourteen days to reach England's chief seaport as against twenty-one days to New York. Owing to the fact that the United Kingdom and Germany practically dominated the shipping situation before the war, the United States had a relatively small trade with Brazil, in particular, and Southern America in general. Americans hoped and expected that the building of the Panama Canal would greatly increase their South American trade, but Europe more than held its own up to the outbreak of hostilities in 1914. The United Kingdom has occupied an especially strong position in South America owing to its heavy capital investments there, its holdings in the Argentine

alone being greater than its Canadian interests, great as these are, and have been. The French also have invested considerable sums in South America, and have a special interest in Brazil. Although German financiers were chiefly interested in Brazilian finance in the early part of the present century, it was to London and Paris that Brazil went for financial aid just before the outbreak of war.

TROUGH OF DEPRESSION.

In the summer of 1914 the Brazilian Government applied for a \$100,000,000 loan in London and Paris; but the terms imposed were so onerous that the negotiations fell through. Brazil had, in fact, been passing through the same hectic experience as Canada and the Argentine, and was in the trough of depression at that period. To make matters worse the outbreak of the European struggle in August temporarily paralyzed the country's foreign trade, shipping being unavailable to carry its coffee and other products to Europe. A staggering blow was dealt by the war to international commerce, and when even New York, London, Paris and Berlin reeled under the shock, it is not surprising to find that the commercial centres of Brazil were not able to withstand the impact. In a word, paralysis overtook the economic life of the country, and the Government was obliged to suspend the payment of interest upon the national debt. The Messrs. Rothschild were called into consultation, and the London and Paris branches of their House formulated a plan whereby Brazil was permitted to discharge its foreign obligations in bonds, in lieu of cash payments, until July 31, 1917. The plan has worked with admirable success, and the Brazilian Government has begun once more to meet its obligations with cash payments.

As explained, the Brazilian Government paid its foreign debts—with a few minor exceptions—in funding bonds which bore interest at 5 per cent and which were made a second charge on customs revenues. The paying of cash into various sinking funds was suspended until the end of July, 1917. It is interesting to note that, although the plan has worked smoothly and well, it has resulted in adding \$75,000,000 to the national debt of the country. And yet, although the scheme has worked well, there was very grave doubt in the minds of English and French financiers that the country could pull through and meet its obligations once more in cash by July 31, 1917. At least \$30,000,000 was required annually for interest upon the foreign debt alone—a large sum when it is recalled that Brazil is not economically developed, but is still almost in a primitive state as far as its commercial activities are concerned. Moreover, the situation was further complicated by the fall in the value of Brazilian milreis—a fall that amounted to 33 1-3 per cent at one period. When it is kept in mind that the milreis is ordinarily worth about 32 cents, it will be seen that its depreciation to 20 cents would make a material difference in the burden laid upon the Government in meeting its foreign obligations. As a matter of fact, instead of costing some 90,000,000 milreis to meet interest, Brazil was compelled to pay, in terms of its depreciated money, 120,000,000 milreis to discharge its annual interest payments.

VALUE OF MILREIS.

The paper money of Brazil has had an untoward history, similar to that of the American "greenbacks," issued during the course of the Civil War. There were heavy over-issues of paper money in the Brazilian Republic, it being a tempting way in which to meet the current needs of the Government. In the Funding scheme of 1898—when Brazil found itself in deep financial waters—its European creditors compelled the country to retire a certain percentage of its paper-money issues each year—a percentage equal to the cash not used in meeting interest upon the public debt. By this expedient the milreis advanced in value from 12 cents to 32 cents. It would have been well had the same plan been adopted in 1914—that is, the retiring of as much paper money as the national debt was increased by issuing bonds, on interest account, in lieu of cash payments. At any rate, there is a warning here for those amateur financiers in our own country who would not hesitate to derange the Dominion's monetary mechanism for the advantage of a ready, but extraordinarily costly, method of securing funds for the national treasury.

Let us consider for a moment the course of Brazil's trade since the outbreak of hostilities. The trade and

commerce of the Republic was expanding in a surprisingly rapid way before the war, the high water mark being reached in 1912. In that year the total foreign trade of the country, exports and imports included, amounted to \$700,000,000, the exports being greater than the imports by \$55,000,000—a comfortable balance of trade on the right side. In 1913, however, there was an unfavorable balance of trade, the exports having declined by \$50,000,000. The following year, 1914, disclosed a total foreign trade of only \$410,000,000, due in part to the outbreak of war, but much more to the prevalent financial stringency in that country. Brazil had, in truth, been forging ahead at too rapid a pace, and production had lagged far behind construction and consumption. In other words, Brazil was increasing its trade and commerce by the simple, but old, expedient of living on its debts.

In 1915 there was a balance of \$115,000,000 in favor of Brazil, with respect to the foreign trade of the country. This was due, in large measure, to the decline in imports, although the export trade had largely recovered. Now, it is essential to note just here that Brazil secures a very large part of its revenues from import duties; hence the fiscal affairs of the nation gave cause for serious consideration to the President and his Minister of Finance. Brazil at no period in its history has enjoyed large revenue, its population of 22,000,000 being considered. In 1909 the total national revenue was \$141,515,000; and in 1913, \$212,250,000. True, this revenue was much larger than that of the Argentine and of Canada, but then both these latter nations have much smaller populations. Nevertheless, the revenue of Brazil was expanding in the years immediately prior to the war; but revenues were more than counterbalanced by increased expenditures, resulting in annual deficits of about \$20,000,000.

In the first year of the war, 1914, the revenues of the country declined by \$75,000,000; and in 1915 there was a deficit of \$35,000,000. In 1915 \$25,000,000 was issued in bonds, so that the actual deficit was \$60,000,000. To English and French financiers the financial future of Brazil appeared far from rosy. In 1916 the revenue amounted to \$154,000,000 and expenditures to practically a like sum. The saving factor in the situation was found in increased imports, which have reduced the estimated deficit in 1917 to about \$5,000,000. The Government has effected considerable economies, especially in the civil service; but there is still room for improvement. By way of contrast, it must be admitted that Canada has made a splendid showing; for while our national debt has grown to really serious proportions the nation has met all its obligations promptly, and its credit stands high in the money markets of the United Kingdom and the United States.

GRAND TRUNK PACIFIC RY.

A. W. Smithers, president of the Grand Trunk Pacific Ry., who has just returned from a western tour, presided at the adjourned annual meeting a few days ago, when the following officers and directors were elected:

Directors: Alfred W. Smithers, Sir H. M. Jackson, John A. Clutton-Brock, Sir Wm. Lawrence Young, Howard G. Kelley, E. J. Chamberlin, W. H. Ardley, Frank Scott, W. H. Biggar, Hon. R. Dandurand, Wm. Molson Macpherson, J. E. Dalrymple, Peter McAra and J. B. Fraser.

Officers: Howard G. Kelley, president; W. P. Hinton, vice-president and general manager; W. H. Biggar, vice-president and general counsel; J. E. Dalrymple, vice-president; Frank Scott, vice-president and treasurer; Henry Philips, secretary; W. H. Ardley comptroller.

In reviewing the results for the past year, the president remarked it was gratifying to note an improvement, although much remains to be accomplished before the property can be on a self-sustaining basis. This condition, however, could only be the natural result of constructing lines of transportation through hitherto unsettled and undeveloped country, and is the history of all other transportation lines. It is, therefore, encouraging to note marked improvement in these conditions from year to year, as the advent of the railway has made possible the discovery and opening of almost unlimited natural resources.

Notwithstanding the stopping of foreign immigration during the war, a very considerable immigration from the United States, well equipped financially for farming and other pursuits, continues to go into the new country, and in addition to the increased acreage taken up a number of lumber mills along the Fraser River, in British Columbia, to supply the increasing demand for lumber on the prairies, all of which makes traffic for the railway.