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## Review

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UNITED NATIONS  
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN  
SANTIAGO, CHILE, AUGUST 1985

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Santiago, Chile

Number 26

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# The Revival of American Hegemony

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Tavares\**

One of the most striking features of international economic and political relations in recent years has been the revival of United States power in the Western world. After a couple of decades in which a situation of multipolarity seemed to be consolidating itself in the structure of the relations among the developed capitalist countries, there is once again a concentration of power in the hands of the country which, of course, has been for many years now the main centre of the world economy.

The author of this article, a leading Brazilian economist, describes the main milestone in this process, which is a direct result of the policy pursued by the United States since 1979. This policy is a combination of an expansionary fiscal policy and a restrictive monetary policy which raises interest rates and attracts international financial flows to the country. In the author's opinion, the overriding weight of this policy has meant that the other industrialized countries—whatever their political orientation—have had to redirect their own policies to bring them into line with the policy of the United States, thus demonstrating the central role of the United States in the world order.

After analysing the important effects which this policy is producing both within and outside the United States, she considers the likelihood of its being maintained in the future and the way in which it would affect the policy options of the countries of Latin America, especially Brazil, with respect to international financial and trade relations.

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Up to 1980 or 1981 it would not have been reasonable to suppose that the United States would succeed in reasserting its hegemony over its Western competitors, much less move towards a new international economic order and a new division of labour under its control. Today it is quite likely that this will happen.

Until the end of the 1980s it could not be foreseen that the United States would be capable of bringing into line two countries of strategic importance in the capitalist system: Japan and West Germany. If the United States had not succeeded in molding the private Japanese economy to its set of interests and if British and German policy had not been so conservative, the United States would have had to confront two blocks, European and Asian, with claims to economic independence. It must be stressed that at the time the interests at stake were so obviously in conflict that the world trends were polycentric, and it seemed impossible for the United States to succeed in reasserting its hegemony, although it continued to be the dominant power.

Other general circumstances of the 1970s seemed to confirm this argument. The private banking system was totally beyond the control of the central banks, in particular the Federal Reserve Bank (FED). The subsystem of transnational subsidiaries was operating on the basis of regional divisions of labour among enterprises, contrary to United States interests, which sharpened intercapitalist competition to the detriment of the United States.

In short, the existence of a world economy that lacked a hegemonic pole was leading to the dismantling of the existing post-war order and the decentralization of private and regional interests.

Developments in United States domestic and foreign economic policy, from 1979 to the present, were aimed at reversing these trends and regaining international financial control by means of so-called strong-dollar diplomacy.

As is generally known, the Chairman of the FED, at the end of the last IMF meeting in 1979, stated that he was not in agreement with the proposals of the IMF and the other member countries for the maintenance of a devalued dollar and introduction of a new international monetary standard. He added that the United States would not allow the dollar to continue to decline, as had been happening since 1970 and in particular since the collapse of the Smithsonian Agreement in 1973. Following on this abrupt

change of position, the United States announced that the dollar would be kept as an international standard and that the hegemony of its currency would be restored. This restoration of the FED'S financial power meant that the United States itself and the whole world economy were to sink into an unbroken recession which lasted three years. Furthermore, several large corporations and a few American banks failed, and indeed the whole United States economy was subjected to severe structural strain. The beginning of the recession and the sharp increase in interest rates were decisive factors in the electoral defeat of President Carter.

Reviewing what happened with the benefit of hindsight, it can be argued that the Reagan Government's economic policy (subsequent to these events) was not absurd from the standpoint of the national interests of the United States—as almost all economists had proclaimed at the time of its formulation—even though it had brought a truly "imperial" pressure to bear on the rest of the world. It was in fact a very contradictory policy, not derived from any "international conspiracy" nor even from a solid national consensus. Indeed, no such consensus was possible when the United States Treasury Department had one policy and the FED another; when the California group held certain ideas and the Middle West and the East Coast other quite different ones. In short, as a result of an intense conflict of interests and domestic disagreements, the United States applied, and is still applying, a multi-faceted policy entailing the launching of a process of economic recovery of a peculiar kind, one that was almost inconceivable at the beginning of the 1980s.

In fact, in addition to the campaign for the restoration of political and ideological prestige, Reagan had in mind something unheard of, namely, a spurious, upside-down Keynesian policy combined with hard-line monetarism. To redistribute income to the richest, increase the fiscal deficit and hoist the interest rate is an explosive combination of economic policies, from the domestic as well as the international standpoint. In spite of everything, this contradictory policy resulted in the recovery of the United States economy to the extent that this country managed to influence its allies and throw down an economic challenge to its foes.

On the other hand, by maintaining a strict monetary policy and forcing the overvaluation of the dollar the FED was in fact able to regain control of the international private banking system and manipulate to its advantage a broad range of different interests. In fact, after the turnabout announced by the FED Chairman, followed by the Polish crash, this system was first compelled to clamp down on lending almost immediately, thereby putting a brake on operations in the inter-bank market and, more importantly, on the expansion of lending for the countries on the periphery. The cutback in lending was even more abrupt following the Mexican crisis, for on that occasion the private banking system panicked and took shelter in the big financial markets. From that moment the flow of inter-bank lending was definitely directed towards the United States, and the banking system was under the FED'S control. And not only under the control of monetary policy, which dictates the rules of the game, and of fluctuations in the interest and exchange rates, but also at the service of American fiscal policy. Since the beginning of the 1980s all the big international banks have been operating in New York, not just sheltering under the FED'S wing but compelled—because they had no other remedy—to finance the American fiscal deficit.

All this may seem very strange. But the truth is that today we are witnessing the following situation: the United States has a fiscal deficit of a structural kind, and its inability to reduce this deficit arises from its own financial and military policies. The financial element in the deficit is increasing, simply because of the "rolling-over" of the public debt which has caused it to double in barely three years. In 1984 the public debt amounted to approximately US \$1 300 000, a figure close to the total amount in circulation in the international inter-bank market. This debt is the only tool with which the United States can achieve the necessary tapping of international liquidity and attract Japanese and European banking capital towards the American money market.

Up to 1981 only the United Kingdom was pursuing an economic policy openly in support of the American currency. The Japanese had a real possibility of following an independent monetary policy and they resisted the adoption

of neoconservative policies out of the monetarist prescription book. Several other countries, such as France and Austria and the Northern European nations, and even Brazil itself, also tried to resist falling automatically into line with the orthodox economic policy. They all knew clearly, from 1979 to 1981, that they must not comply, but they were nevertheless brought under control. All the developed countries of the world, whatever the colour of their Governments—socialist, social democratic, conservative, etc.—are practically in alignment in terms of exchange-rate policy, interest-rate policy, monetary policy and fiscal policy. Consequently, all growth rates, all exchange rates and all interest rates are centered on the performance of these variables in the sphere of the American economy.

In these circumstances all these countries have been compelled to pursue tight monetary and fiscal policies and to maintain increasing trade surpluses which stifle their national growth potential and transform their public deficits into structural financial deficits that are useless for the purposes of policies of economic reflation.

The way in which Japan's economic policy was brought into line was impressive, even dramatic. Throughout the post-war period this country was the most heterodox in matters of economic policy. It invested on short-term borrowing and pursued a loose monetary policy; it surrounded its business system with an apparently impossible risk structure; it made little use of the securities market or of public debt; in short, it produced its own national development model. In 1975 it tried to carry out an internal readjustment plan in keeping with its potential, but it was gradually forced to abandon all that and today it is totally under the influence of the dynamics of the American economy. Japan is not following an independent development policy, except with regard to the minimum internal security of its society. The larger part of Japan's banking and transnational capital is tied to United States recovery plans; it has enormous exportable surpluses but no prospect of resuming its historical investment and growth rates. This means that the Japanese financial market is inextricably linked to the American, saving some accidental breakdown between 1985 and 1987 in the United States banking system and a sudden

devaluation of the dollar—the only point at which there is still a possibility of an upheaval that could shake American hegemony.

A little while ago, everything indicated that the United States had lost the capacity to lead the world in a beneficial way, and this is still true. But, in contrast, between 1979 and 1983 the Americans gave indisputable proof of their ability, not always beneficial, to exercise their hegemony and bend all other countries to their will by means of recession.

Since 1984, in the very words of its financial élite, the United States has been establishing a new international division of labour and boasts of being the "trade locomotive" of world recovery.'

One fundamental aspect of this process of restoration of the dominant position of the United States stands out in an analysis of the country's economic relations. Between 1982 and 1984 the United States doubled its trade deficit every year, and this fact, together with interest receipts, enabled it to absorb real transfers of savings from the rest of the world which in 1983 alone amounted to US\$ 100 000 million and in 1984 should have exceeded US\$ 150 000 million. On the other hand, its terms of trade improved and its domestic costs declined, for its imports are the best and the cheapest in the world. Thus, without making an intensive savings and investment effort, without touching its energy infrastructure, without touching its agriculture or old heavy industry, the United States is modernizing its high-technology industry with cheap equipment of the most advanced kind and with venture capital from Japan, West Germany and the rest of Europe and the world.

The structure of United States trade was always symmetrical and closed. It exported raw materials, foodstuffs, industrial inputs and capital goods, i.e., all the important items of international trade. The United States economic relations with the rest of the world could not be contained within the traditional centre-periphery arrangement. There had to be an international division of labour which favoured the United States in absolute or relative terms. The surprising fact is that now it is seeking to establish an international division of labour that works to

'See Morgan Guarantee Trust: *World Financial Markets*, September, 1984.

its own exclusive advantage. After having exported to the rest of the world for more than two decades through the transnationals the technological pattern of the American industrial system, it is using its hegemonic power to rebuild its position as dominant technological centre. It makes use of its banks, trade and finance and of direct foreign investments to achieve redeployment, despite having lost the trade race to the other developed economies and even some semi-industrialized ones.

The United States is now investing heavily in the tertiary sector and in the new advanced-technology industries. It is sufficient to examine the investment structure in 1983 and 1984 to realize the extraordinary concentration of investment expenditure in the field of information technology, biotechnology and sophisticated services. The United States is not interested in preserving its old structure. Moreover, it knows that it does not have the capacity to bring about a boom by reforming the industrial sectors which lead the way in post-war economic growth. On the contrary, The United States is concentrating its efforts on the high-technology sectors and is leaving its old industries open to international competition from its partners.

With its enormous trade deficits and the resumption of growth, the United States can be sure of the support of its exporter partners, especially Japan and West Germany. With its high real interest rates it finances the support of the bankers. And with joint ventures within the United States it ensures its leading position for the future, in addition to helping the recovery of its domestic economy.

It must be stressed that the recovery of the American economy is being achieved by means of short-term borrowing and with growing indebtedness. In actual fact the Americans are using the same technique that Brazil and Mexico recently used and which Japan used in the 1950s. The United States finally discovered the Latin American and Japanese development technique: financing investment by means of short-term borrowing, foreign debt and fiscal deficits. And since its currency is dominant and overvalued, the American economy has no inflation. This is indeed a very puzzling situation for economists, for if what the monetarists or Keynesians or any traditional textbook say is correct, the United

States should already be experiencing galloping inflation because of the tremendous demand pressure engendered by a heterodox economic policy.

Budget policy provides an example of this heterodox approach. The United States has practically halted expenditure on public goods and services and has increased expenditure in the armaments sector, cutting back welfare expenditure accordingly. In short, it has swapped social welfare for weapons and has carried through a redistribution of income to the rich. In addition, it has reduced the tax burden on the middle class and introduced almost full tax relief on interest paid to banks in connection with purchases of consumer durables. It has also encouraged faster depreciation of the assets and refinancing of the liabilities of certain companies. In these circumstances personal debt has been transformed into good business, for part of the financial cost of the debt can be set against income tax. Accordingly, short-term borrowing has been used on a large scale for the purchase of houses and consumer durables. Similar methods have been used to finance investments in the tertiary sector and high-technology industry which do not take long to come to fruition and whose expected rate of return is much higher than the nominal interest rate, which is showing a tendency to decline. There are apparently three interrelated reasons for this drop in interest rates: the absorption of international capital, the FED'S less orthodox position and the decline in inflation. This latter phenomenon is due in turn to the decline in domestic costs resulting from the overvaluation of the dollar and competition from imports, which have produced an improvement in the relationship of trade prices in favour of wage-earners' purchasing power.

Many people hoped that from 1983 the United States would revert to an overall balance-of-payments surplus, since from 1982 the income earned by American capital abroad did not cover the current-account deficit. This was not, however, to happen, because the influx of foreign capital comfortably covered the deficit. The investment of venture capital also increased. For example, Japan alone invested US\$ 10 000 million during the recovery period and is planning to invest a further US\$ 40 000 million before the end of the decade. West Germany, for its part,

will probably have invested approximately US\$ 8 000 to US\$ 9 000 million, although the exact total is not available. In short, all of Europe and Japan are investing in the United States; the United States, meanwhile is taking back part of the capital of subsidiaries of the American transnationals which have no capacity for further expansion in the rest of the world. Finally, while the peripheral countries remain at a standstill and the rest of the world has a growth rate of 1 to 2%. The United States grew at a rate of 7 to 8% in 1983-1984.,

Buttressed by this enormous influx of capital, the United States could continue with a trade deficit whose limits are still not in sight. From US\$30 000 million in 1982 it climbed to US\$ 60 000 million in 1983 and jumped to over US\$ 120 000 million in 1984. In 1985 it might well reach US\$ 200 000 million and it may continue to increase unless a deliberate brake is put on the American economy, simply because there is surplus capital in the world. This surplus of capital and "external savings" is due to the fact that the rest of the world has been sticking to conservative policies, whatever the Government in power. In fact, the universality of orthodox policies has compelled all countries to maintain low investment and growth rates and to increase export rates. As a reflection of the forced adjustment, all the countries of the world have balance-of-trade surpluses. All except the United States.

The United States is opening up its economy and in so doing stimulates a massive transfer of income and capital from the rest of the world to the United States. One very important point is that this makes it possible to close the structural financial deficit in the public sector. It all happens as if every time the FGD issues bonds to finance the national debt, it can be certain that they will be taken up by all the world's banking institutions and *rentiers*. The essential fact is that the whole world is financing not just the United States Treasury Department, especially its financial element, but also American consumers and investors. This time, and in contrast to what happened in the 1970s, there has been a transfer of real savings and not just of loans, liquidity and speculative capital.

Another question on which light needs to be shed is the influence of interest rates on investment. Many people argue that the high level of

real interest rates will put a brake on investment sooner or later. It is obvious that the Americans are not financing investment in the capital market. There is no market in new capital; the market that matters today is the money market. The Americans —it is worth repeating— are replacing traditional long-term borrowing {through the issue of debentures, equities, etc.) with short-term borrowing, or they are using their own resources and venture capital. On the other hand, this situation clearly places at risk many old companies and the value of their stocks and debentures. If a large enterprise wishes, as several have tried recently, to launch an issue of several thousand million in the stock market, after a week that same company will be compelled to buy the issue back or otherwise see the value of its stock fall. This means that the only real risk that the United States is running is that of a sharp devaluation of the old enterprises whose stocks are quoted at prices different from the effective ones. It should be pointed out in passing that the big banks which concentrated their investments in the old branches of production or in energy or agriculture have been and are still experiencing serious difficulties. The technical failure of Continental Illinois is a clear example of this. On the other hand, all those which invested in California, in Silicon Valley and in services are in a very favourable position.

To pick up the thread of the main argument, there is no capital market, strictly speaking, in the United States. The market that matters is the market in money. The United States open and overnight markets are as erratic as our own, but they are controlled by the FED and not by the "inverted" lunacy of the Brazilians. Nor is its level of public debt less foolhardy than ours, but it is beneficial, since it is being financed by the influx of all the world's banking capital, which is clearly not true of our public debt. Whereas we (the Brazilians) are compelled to solve the domestic problem of public financing at the cost of inflation and sharp increases in domestic interest rates, the United States, in contrast, is subject to no pressures of this kind. Its interest rate can decline provided that it maintains a slight differential from the European rates. It can thus be argued, in the light of the events of 1984, that the confidence in the dollar that resulted from President Reagan's victory and the "forcing into line

of the international bankers" will be hard to shake. It is as if the devaluation of the dollar had never happened, even with a less rigid monetary policy on the part of the FED and the increase in the American deficit. On the contrary, it is the European central banks which since the end of 1984 have been striving to prevent the devaluation of their own currencies. The United Kingdom has just paid its respects to the United States by experiencing the biggest devaluation of the pound ever in a single week.

The United States does not need to solve its problem of domestic financing as long as the growth rate of the European countries remains lower than its own, for there is not the least likelihood that the rest of the world's capitals will invest by preference in the countries of origin until those countries resume growth at sustained rates. Up to now they have been investing by preference in the United States, and national policies are aimed exclusively at improving industrial production structures and, in the case of the Common Market, food production structures as well. Since the recession the countries of Europe have not formulated any plans to re-establish their overall economic growth on sound foundations. They have merely acted individually and tried to protect themselves against the invasion of their markets by the Japanese. Nevertheless, at the same time as inter-capitalist competition was growing sharper elsewhere in the world, there was an enormous upsurge in efficiency in the modern industries of Japan and certain European countries. And as we saw earlier, the United States is taking advantage of this situation to modernize its production at the expense of the rest of the world, including the peripheral Latin American countries, which has transferred to the United States in recent years almost US\$ 100 000 million by way of interest payments and losses in the terms of trade.

The response of Europe and Japan has necessarily been to ally themselves with the United States; but it remains to be seen what will happen to them in the long-term as satellites of the centre.

Europe is seriously concerned about the arrogance with which the Morgan report views as a privileged area of United States interest its "expanded base in the Pacific", which includes Canada, Mexico, Japan and the recently industrialized

countries of Asia. But -Europe remains paralyzed, for reasons of security, by virtue of strategic relationships of automatic alignment with the United States, and for economic reasons arising out of its own inability to put into effect a joint economic policy, beginning with monetary policy. The United Kingdom and West Germany, each in its different way, played a decisive role in the collapse of social democratic plans in Europe, and socialist France sadly succumbed as well.

It is to be hoped that when they react politically it will not be too late and they will not be condemned to play the part of second periphery of the United States.

If the United States succeeds in maintaining its present policy with the same vigour until 1988 without causing a domestic or international financial collapse (a prospect which is becoming increasingly remote), it will have completed a decade—from 1978 to 1988—of absorbing liquidity, capital and loans from the rest of the world. It will also have completed five years of growth at the cost of the relative stagnation of its most important capitalist competitors. It will have financed the modernization of the tertiary sector and the renewal of its industrial stock by utilizing the external economies of the rest of the world. The resumption of hegemony would thus conclude by converting the American economy into a centric and not merely a dominant one. Whatever similarity there may be to the Britain of the nineteenth century, the analogy is unsound, given the continental size of the United States and the existence of the Soviet Union.

The structural problems which the United States still has to solve and which it cannot solve by means of borrowing and short-term capital relate to the transformation of its basic infrastructure. This requires a prior process of consolidation of the banking system and restructuring of the domestic debt. Compared to the volume of the United States debt and its fiscal deficit, the debts of the Third World are no more than a drop in the ocean. In 1982 we lost the initiative and the capacity to put pressure on the American banks. If the financial structure were remodelled, and only then, the United States would be able to allow the dollar to slide again. If the dollar is devalued before that happens, there will obviously be a massive flight of capital, and the American financial system might fail in con-



sequence. This is why, unless it cannot be avoided, the United States should not allow any significant devaluation of the dollar at least until 1988.

If this hypothesis proves true and if the United States does not reform the relationship of the FED and the Treasury Department with the banks, Brazil and the other Latin American countries will be forced to renegotiate their foreign debts year by year, unless they take individual and collective measures of co-operation to cope with that state of affairs. Whatever happens, Brazil will be forced to pay at least part of the interest it owes to international bankers and to try to capitalize the remaining part. The export effort which it has been making in recent years is nothing new, but it is linked to a totally different pattern from the one which prevailed up to 1978.

In fact, in the 1970s and in particular the period of chaotic borrowing which began in 1977, Brazil made an enormous export effort and succeeded in diversifying its foreign trade structure. During this period Brazil's trade balance showed a surplus with respect to Latin America, Africa and the socialist countries, and was in deficit only with the countries of the Middle East. Brazil's trade position was relatively balanced with respect to the United States and Europe up to 1978. From that year up to the present it has had to cope with violent fluctuations in the international markets in non-convertible currencies and was compelled, especially from 1982, to carry out a complete transformation of its trade structure. It has begun to show surpluses on an increasing scale with the United States and Europe and is more or less in balance with the other areas to which it exports, in addition to making an enormous effort to introduce oil substitutes.

If the United States wants Brazil to pay its debt service it must allow Brazil to accumulate a trade surplus equivalent to the amount of interest owed. This is not happening at present, for Brazil is maintaining a surplus with the United States greater than the interest payments being made to American bankers, although less than the total payments to the whole international banking system. This is clearly an unsustainable situation, both for Brazil and for the European banks. When Brazil's surplus with the United States ceases to grow owing to the slowing-down

of the American economy and this is not offset by increase of the surplus with Europe and Japan (owing to low growth rates, protectionism and the steady climb of the dollar), Brazil's only alternative will be to negotiate hard. Even a conservative and deflationary policy will be of no use, given the low import levels and rates already achieved.

The problem of protectionism, of course, continues to be a major source of conflict, but the United States will be prepared to yield to the limit that Brazil needs in order to pay the interest owed to its bankers. Even so, Brazil will find it difficult to maintain a surplus with the United States greater than the total amount of interest. If it renegotiated the debt and had less interest to pay, then the amount of surplus needed would automatically be less. This means that the prospects for growth in imports depend on the two arms of a pincer: the conditions on which the debt is renegotiated and American and European protectionism. In short, we are entirely subordinate to American economic policy with regard to exports, exchange rates and debt.

For this reason, the exchange-rate policy pursued in recent years has left completely out of account the structure of export prices and its effect on inflation and the terms of trade. Brazil has carried out devaluations going beyond what was required by its domestic price structure, solely in order to be able to compete. Contrary to what has been said, in terms of the domestic cost structure of exports Brazil is overvaluing and is therefore losing with respect to trade prices. In other words, once again it is being obliged to do the opposite of the United States.

The United States is not about to give up its special relationship with Japan, West Germany, Canada and Mexico (nor could it do so) because these are economic and political areas which it must control in some way. In my opinion, the countries of the Southern Cone are not important in the growth strategy of American trade. In some markets Brazil is the second-largest supplier of farm products, in areas opened up by the cyclical fluctuations in American supply. And it is these areas which will see the sharpest and fiercest competition if the United States seeks to maintain its position in the international market in the long term. Textiles, footwear, iron and steel, and machinery are sec-

tors in which it will clash with the other countries in the struggle for the American market. From the standpoint of direct American investment, the appetizing sectors have already been declared publicly and repeatedly. The United States has a prime interest in the sectors of information technology, banking and armaments, sectors over which it wishes to maintain undisputed hegemony and which offer the greatest opportunities of long-term expansion for American capital already established in the country.

Apart from these disputed areas, it remains to be seen whether Brazil will be able to conduct itself as a sovereign debtor and renegotiate its foreign debt without compromising its interests and without creating false expectations which

will prove unattainable in practice and a further source of frustration to its people. It would be intolerable, however, for Brazil's right to survival and self-determination not to be recognized, on the pretext of automatic alignment and false notions about the country's importance and its preferential relationship with the United States.

The so-called "naive arrogance of native South American nationalism" is disappearing, despite the efforts of the conservatives to revive it as a bogeyman. A sovereign country is one which recognizes the realities of the world but does not let itself be intimidated by them, choosing the correct options and negotiating seriously and responsibly in an effort to overcome the limits of the present and make room for the future.