British Investments in Brazil: Edward Ashworth, a case study

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Abstract

This is a case study of a textile company located in Brazil, *Companhia Taubaté Industrial* (CTI), during the period of 1899-930. During this period British investors were expressive under the direction of the traditional British counting and investment company Edward Ashworth & Co. that had a branch in Brazil dating back to 1840s. Methods' theoretical approach adopted in this study is based on Hirschmann's linkage effects and the Myrdal's principle of circular causation. The article analyses the Brazilian economy conditions related to the economic growth determined by the expansion of raw material export. For instance, the effect of coffee exports income as a forward factor to the internal industrialization through the process of imports replacement. The emergence of the company, in 1891, and its management in the first years of activity, until British capital

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effectively entered in the Brazilian market in 1899, was quite poor. This scenario was followed by a development cycle fully influenced by the increase in internal consumption and by the local cloth production, which used to be imported before. The industrial expansion was successful until 1930, when the British capital vanished because of the 1929 crisis. This crisis took Edward Ashworth Company headquarters in Britain to bankruptcy. Along this article, the influence of British shareholders in the CTI company business and the observations made about the company by Richard Graham are analyzed. Conclusions include that the British investments were crucial to the viability of the CTI company.

Keywords: Economic development; Economic History; British investments in Brazil; Paraíba Valley; industrialization; textile industry

Os investimentos britânicos no Brasil: Edward Ashworth, um estudo de caso

Resumo

Este é um estudo de caso de uma empresa têxtil localizada no Brasil, a Companhia Taubaté Industrial (CTI), durante o período de 1899-930. Durante este período, os investimentos britânicos foram expressivos, sob a direção de empresa tradicional britânica de investimentos Edward Ashworth & Co., que possuia uma filial no Brasil na década de 1840. A abordagem teórico-metodológica adotada neste estudo é baseada na teoria dos efeitos de encadeamento de Hirschmann e no princípio de Myrdal de causação circular. O artigo analisa as condições da economia brasileira relacionados ao crescimento econômico determinado pela expansão da exportação de matérias-primas. Por exemplo, o efeito do rendimento da exportação do café é visto como um fator para a industrialização interna, por meio do processo de substituição de importações. O surgimento da empresa, em 1891, e sua gestão nos primeiros anos de atividade, até capital britânica efetivamente entrar no mercado brasileiro em 1899, foi muito pobre. Este cenário foi seguido por um ciclo de desenvolvimento totalmente influenciado pelo aumento do consumo interno e pela produção de tecido local. A expansão industrial foi bem sucedida até 1930, quando o capital britânico desapareceu por causa da crise de 1929. Esta crise levou a sede da Companhia Ashworth, na Grã-Bretanha, à falência. Ao longo deste artigo, a influência dos acionistas britânicos no negócio da empresa CTI e as observações feitas sobre a empresa por Richard Graham são analisados. Conclui-se que os investimentos britânicos foram cruciais para a viabilidade da empresa CTI.

Palavras-chave: Desenvolvimento econômico; História Econômica; Investimentos britânicos no Brasil; Vale do Paraíba; industrialização; indústria têxtil

Introduction

The business relationship between Brazil and England was always much intensive, mainly during the period from the arrival of the royal Portuguese family in Brazil (1808) until the period of the crash of New York stock exchange (1929).

The investments were quite diversified. This article demonstrates the importance of the British capital invested in the Companhia Taubaté Industrial (CTI). CTI was a textile company established in the city of Taubaté, State of São Paulo, Brazil. Company files were researched in the Documentation and Historic Research Center at the University of Taubaté, in the State of São Paulo Official Daily, in the Municipality Chamber documents, and in research articles that that presented findings regarding the Brazilian industrialization process.

The history of this Brazilian company represents an important contribution to complement the knowledge about the English history in an extraordinary international investment period between 1899-930. Also relevant is to explore specific aspects of that company development that could help to reinforce Richard Graham's several references about CTI in his studies that described British investments in Brazil. The documentation analysis developed in this research allows a more detail evaluation about the importance of the British capital invested in this company as well as confirm some of that author's remarks.

This article is divided in three parts. Part one presents and discusses the background and theories that explain Brazilian industrialization during the study period. Part two describes the relationship between the company development and the input of British capital through Edward Ashworth & Co. (EA&Co). Subjects such as the reasons for the capital input, types of products manufactured, and actual investments accomplished, among other, are presented and discussed until the bankruptcy of EA&Co. in England. Part three presents the conclusions of this research.

This article was written based mainly on Portuguese literature. However, to better associate this research to British point of view some studies in English were also referred. Most of the English literature was found in Brazilian universities' libraries. It is important to note about the currency exchange rate in the study period, which ranged between 15 and 30 pounds by 1:000$000 (one conto de réis or one million réis).

Background

The studied period starts in 1889 and stops in 1930. This period is known as the Old Republic Period in Brazilian history. Brazil's economic growth in that period was supported mainly by the production and exports of raw material. In the state of São Paulo, for example, coffee was the main export product during that time.

Brazil's internal income growth took place by two processes: one connected to the exports growth, and the other associated with the internal multiplication effect. (Furtado, 1998:142-60)

Product consumption expenses were initially directed to imports until they reach the amount of consumption or domestic product substitution became viable and occupied portions of the domestic market. It is interesting to observe that acquiring knowledge about specific import product consumption became crucial information to guiding internal investment incentives. (Hirschman, 1958:152-83)

The emergence and development of the textile sector, as having a consumption linkage effect and forward production (Hirschman,1981:166-83) associated with the export staple sector, were initially concentrated in the most dynamic centers but then it became also settled in the periphery. This sector received production units from more dynamic industrial sectors, such as metalworking and chemical. And this process created an early increase in the transfer of industries from the capital to the interior of Brazil at that time.

The region known as *Vale do Paraíba Paulista* (Paraíba do Sul River Valley portion in the State of São Paulo) received much of this early industrial transfer. The region reached the end of the Old Republic period having several of the most important textile industries in the country. For example, *Malharia Nossa Senhora da Conceição* (manufactured stockings); *Tecelagem Parahyba* (manufactured canvas and blankets); *Companhia Fiação e Tecelagem Guaratinguetá* (manufactured canvas and blankets); *Companhia Fabril de Juta* (manufactured coffee bags), and *Companhia Taubaté Industrial – CTI* (manufactured cotton cloth for clothes; cretonne for tablecloth and sheets; cotton toweling for towels; and jute for bagging). The analysis of the industrial expansion in this region can be described under the theory of inequalities associated with Myrdal's principle of circular causation (Myrdal, 1957:47-68). Under this perspective the regions of a country that concentrated economic activity also concentrate inequality growth. The establishment of industrial units in the *Vale do Paraíba Paulista* is associated with two main factors: the maintenance of coffee production in some municipalities of this region that kept income and urban activities that facilitate new investment opportunities; and the proximity to the two main urban centers of the country, Rio de Janeiro and São Paulo, as well as the railway connection between them. Dom Pedro II railway unleashed the connection between Rio de Janeiro and São Paulo in 1877 crossing *Vale do Paraíba Paulista* and promoting the development of this region along the path of the railway and parallel to Paraíba do Sul River (M"uller, 1969). These two factors turned the region into a priority recipient of the industrial activity expansion that began in the country at that time.

Nineteenth century last decades contributed to the development of industrial activities in Brazil, particularly the textile sector. Most of this expansion is associated to external investments from central capitalist countries and to growing world markets, what expanded Brazilian coffee exports and promoted currency valuation, stimulating industrial machinery imports.

The customs revision of 1877 stimulated the emergence of industries (LUZ,1978) and many monetary issuance permissions raised industrial activities finance but increased the speculative movement in Rio de Janeiro's stock exchange during 19^{th} century last decade. A great industrial expansion took place at that time, followed by the national currency exchange rate decrease that provided national product protection and kept domestic income for promoting internal demand.

Companhia Taubaté Industrial: Foundation and initial activities

Companhia Taubaté Industrial (CTI) was located in the Paraiba do Sul Valley and founded on May 4th, 1891. It was the most important industry of this region in the Old Republic. Its capital formation shows no signs connecting its financial structuring with the period of speculative market practices. *Banco Popular de Taubaté* was the only financial institution that participated in the company capital structuring. Investors were mainly from the region investors detained only 12.2% of the shares, which represented a value of R$61:000$000.

The first board of directors was composed by a banker, Rodrigo Nazareth de Souza Reis (President); by a Danish merchant set in Rio de Janeiro, Valdemar Bertelsen (Commercial Director); and by a French descendant and industrialist from Rio de Janeiro, Felix Guisard (Technical Director).

The *CTI's* capital was formed by the combination of investors from the coffee agricultural sector (approximately 30%); liberal professionals (approximately 18%); national finance capital (approximately 12%); capital of a small local industry that belonged to a Portuguese immigrant (approximately 10%), import commercial sector capital belonged to Mr. Bertelsen (approximately 12%), and Mr. Guisard`s family capital that came from this French immigrant family savings (approximately 16%).

Since the first Board of Directors meeting on May 5th, 1891, some deliberations were analyzed to reduce the production cost, for example, import materials substitution by national materials and labor force search and training, since available labor was unqualified for needed tasks. Building construction was under the responsibility of the engineer Fernando de Mattos, who was a member of a coffee plantation family from Taubaté and had studied in Paris.

The project included an integration plant, a thread factory, and a weaving factory. The aim was to use the national cotton and not depend on imported threads. Its activities began only with the weaving work in 1893, using imported threads from England. The thread work was planned to be part of the second phase. Several problems were overcome during plant construction and production, but expenses and delays took most of the capital from partners and the company. This problem was common among companies founded in that period. (Stein, 1957)

In 1892, some company difficulties had already appeared, because Directors had ordered machinery and imported equipments in a period of high exchange rate. Then soon after there was a devaluation of the national currency that forced the company to increase its debts in national currency (called *réis).*

The company began its production in 1893 by manufacturing cotton shirts with imported threads from England, which were sold in Rio de Janeiro through its main office located in that city (Brazil`s capital at that time). This office was under the responsibility of the Commercial Director, Mr. Bertelsen. In Taubaté, the factory was operating under the responsibility of the Technical Director, Mr. Guisard, and supported by his brother, Mr. Eugênio. With the production capacity of 350 dozens shirts per day, the company was operating with only 40 dozens per day.

A campaign was initiated to seek financial help for the company that resulted in loans approved by Banco do Brasil. *Companhia*

Taubaté Industrial got a loan of 160:000$000 to buy the machinery for the thread factory.

At the beginning of Prudente de Moraes government (1894-1898), he started a new effort to restore the country's finances, which increased the concerns about measures to recuperate national currency. The new government set the beginning of a new approach toward agriculture, since Rodrigues Alves (Income Minister) considered that the industrial development was damaging agriculture production, especially aspects related to labor force and capital availability.

When the exchange rate devaluation reached 28.8% in the period it caused instability to those industries that depended on imported threads. Several companies had difficulties and many faced bankruptcy what caused the crisis to spread to the cotton shirt market.

As a consequence CTI had to stop of production causing reduction in the number of workers and salary cuts of the members Board of Directors and Fiscal Council. Sales were recovered after the signature of a contract between *CTI* and *Joseph Levy Fréres e Cia*. (a commercial company from Rio de Janeiro) in 1897. The new orders made the production reach 100 dozen shirts per day. The company then entered into a continuous production period with improved perspectives. During this period the company employed 170 workers.(San-Martin,1990:124)

However, on '19 March 1898', a fire destroyed the manufacturing and weaving shirts sector of the factory with no chance of recovery. The lack of capital, stopped production, a building destroyed, and mortgage and loans contracted with *Banco da República do Brasil*, made the situation nearly out of control.

The damages related to the fire were estimated in 200:000$000. *CTI* had three insurance policies: two in the amount of 50 *contos* and one in the amount of 100 *contos*. The Royal Insurance Company paid its premium in the amount of 21 *contos*, immediately. However, *Sul Americana* Insurance Company stated that it had no conditions to honor the payment of its premium and did not pay the amount of 130 *contos*.

Felix Guisard, with the help of Taubaté's Bishop (Dom José da Silva Barros), got a two year debt payment deferment for CTI from *Banco da República do Brasil.* Also, with the mediation of this Bank's President (Afonso Pena), the company was able to buy socks and cotton shirt machines from a company that was under a liquidation process (*Companhia São Lázaro*).

CTI then returned to its activities, improving the weaving and shirt manufacturing sector, producing 80 dozen shirts per day, and increasing future expectations. The sales increased and it became necessary to improve production and product quality. As a result new equipment was imported from Europe that consisted of eight machines that sew and cut simultaneously and one new tubular sewing machine with wide diameter. Working hours were extended that demanded setting an electric generator in order to provide electricity for night time production. CTI soon got a contract to supplying cotton shirts to the National Navy that guaranteed the necessary minimum revenue.

Campos Sales' government (1898-902) introduced new economic policies in the country associated with the establishment of a new Funding Loan. Customs rights increased with the gold resettlement quota and a near 25% tax load was impinged toward the industry. By analyzing the textile sector in particular the customs reform imposed higher taxes over imported threads and favored cloth imports, which damaged the textile industries as in the case of CTI.

The entrance of British investors

CTI operated under the following scenario: the import debts with British thread providers increased from 168:437$674 in 1898 to 245:000$000 in April 1899, because of the currency devaluation. These company debts, in an industry operation point of view, were nearly impracticable. The only solution was the conversion of British debt creditors into capital share holders. This solution followed these premises:

A. The debt in the amount of 7.000 pounds would be paid with CTI 1.000 shares in the nominal value of 200$000 each. However, one condition must be met, that is, half of the share, or 100 *contos de réis*, would come from reducing the capital got by the shareholders, and the other half would come from emitting new shares;
B. The capital got by the shareholders (which was 300:000$000) would be reduced to 200:000$000, and the 120$000 shares would be reduced to 80$000 each;
C. CTI nominal capital (which was 5000:000$000) would be reduced to 4000:000$000 divided into 2.000 shares of 200$000 each;
D. Shareholders would receive two new shares in exchange of a group of five old shares, or 200:000$000 total in shares;

E. The remaining 1000 shares would be handed over to the foreigner creditor by their nominal value.

When that proposal was presented to the General Shareholders Council, the company's Board of Directors described the advantages of the negotiation by explaining that they would be exchanging a 245:000$000 debt by 200:000$000 in shares.

In order to accomplish that negotiation some statute clauses had to be modified. The Commercial Director position had to be suppressed. The Company's President office had to be hold without fees. Once statute changes were made British participation in the share capital of CTI began and represented 50% of the total capital.

The input of direct capital, besides probably being the only way that British creditors could receive CTI debt amount, may also reflect the result of British investors' demand for Brazilian suppliers so they could reduce the dependence on imported articles. It may also reflect the concern with exchange rate instability and the need for adjusting the company production profile to imported articles.

In 1899 debt elimination allowed the factory to operate with 312 weaver looms comparing to the former 112 weavers. As a result of the achieved financial stability and after a troubled period due to different contingences, CTI starts to show recovery.

The difficulties to import raw materials and supplies along with government industry protection policies motivated CTI to improve its machinery to accomplish the increasing product demand. Consequently, shoestrings, previously imported from England, started to be manufactured in Brazil after new machines' acquisition.

In 1901, influenced by the British, CTI Directors replaced the commercial partner "Levy Fréres & Cia" by a larger company with more experience and branches in almost all regions of the country and also specialized in textile business. From the beginning the British company "Edward Ashworth & Co" supported sales increase by encouraging CTI's Board of Directors to expand the company's possibilities.

About Edward Ashworth & Co, Graham, analyzing importers that invested in industries as one way of broadening British investments in Brazil, indicates that:

> "Edward Ashworth & Co., a British company, with a branch in Rio de Janeiro, settled since 1840, has founded an industry of canvas in São Paulo, a woolen textile industry in

> Petrópolis, and a textile mill in Taubaté." (Graham,1973:147)

Graham was referring to the beginning of the 20th century. Later on the same article the author affirms that this British company managed to run a cotton mill and stated that "They employed (...), in 1913, about 600 workers." (Idem,150)

Graham refers to the period immediately before the First World War. The British capital and CTI's Directors changed in 1910. By then the British participation increased to 70%, as discussed further.

It is important to note that the industry (CTI) was founded with national capital, and the expansion of foreign capital (British in this case) on Brazilian industrial activities, caused exchange rate instability and the increase in customs fees. And those factors put importing companies in difficulty many times due to the absence of imported goods for distribution.

While the internal industry base enabled stable product supply, commercial businesses had to acquire their products. Thus, in order to meet supply requirements and obtain financial advantages it was established good conditions for new investments.

CTI's business was positive in the years of 1900 and 1901 as the company's balance demonstrated continuous dividends distribution.

On April 1902, during the Ordinary Shareholders' General Meeting, the Board of Directors presented a new plan for factory expansion and asked for authorization to buy new machinery, since the business was promising.

A new machine was acquired with 342 spindles, besides new cards, rovers, and more spindles to double the spinning production. That investment represented 40:384$330 in the spinning sector and 101:627$000 in the weaving division. The expansion was completed in 1904.

CTI main products were stripped fabrics, canvas, and cotton raw fabrics. The 1907 industrial census indicated that 468 thousand meters of fabrics and 11 thousand kilograms of cotton yarns were produced and the industry employed 261 workers (80% women and children). As already mentioned, the cotton yarns supplied by national industries were not sufficient during the Old Republic period, reason why CTI distinguished itself by holding the 16th position in cotton yarns production among all Brazilian companies.

Rodrigues Alves government (1902-6) had continued the economic policy initiated by Campos Sales. Currency exchange rate valuation started in 1900 motivated several economic agents to demand actions upon exchange stabilization after 1905. It is important to consider that exchange rate protection was more efficient and less conflicting with foreign trade relationships. The industrial protectionism based on customs duties triggered conflicts between importers and manufacturers.

The Taubaté Accord established in December 1906 determined the creation of the Exchange Office that fixed the exchange rate in 15 pounds per thousand réis. Finally, the manufacturers demand for currency devaluation and stabilization was met. These measures encouraged capital goods import and the creation of foreign capital funds.

This scenario promoted a cycle of investments to the textile sector that lasted until the crisis of 1913. A consequence of those investments was the increase in production capacity and quality improvement of fabrics produced in Brazil.

Even though CTI's situation was promising, there was not enough capital for essential investments due to the debts accumulated by the company in 1896 but already settled.

The solution to that problem came during a meeting between CTI and Edward Ashworth & Co. representatives. George Herbert Craig, representative of the British company, proposed CTI capital to increase to 1.000:000$000 (one thousand *contos de réis*).

A new capital was composed by the former capital (400:000$000) plus a share emission for each two existing shares (200:000$000) in a total of 600:000$000. The remaining 400:000$000 was invested as new capital by the Edward Ashworth Company and other British shareholders. As a result, the British shareholders' participation in CTI's capital increased to 70%. This capital increase allowed the expansion of the company's building area.

After the new investments CTI started operating with more than 1.000 weaver looms, spinning, and other sectors, achieving 600 workers employed in 1913. A new Board of Directors was elected and composed by: Dr. Rodrigo Nazareth Souza Reis as the President; George H. Craig (representing Edward Ashworth & Co.) as the Vice-President; and Félix Guisard as the Technical Director. Craig was elected president in December 1911, occupying a vacant position due the death of Dr. Rodrigo Nazareth de Souza Reis. In 1912, the share capital increased to 2.500:000$000 and was totally integrated by shareholders. The subscribed capital was almost entirely used for acquiring machinery. It was clear that the ED&Co. was in charge of CTI administration: "Several recommendations that were turn into reality came from England, among them, the replacement of stripped fabrics production by long clothes and cretonnes."[4] These fabrics were formerly imported by ED&Co. Also other British personnel participated in CTI administration, such as, John Frederic Shalders and later George Bailey. This British participation continues until 1930. In the first years of 1910 decade CTI increased dividend distribution and, in the following years, there was a great increment in machinery investment.

Prior to first world war scenario

CTI became the largest textile industry in the Paraiba do Sul Valley region before the First World War. It operated with 1092 weaver looms and approximately 600 workers. If considering the Steins's(Idem,111) data for the State of São Paulo, the company can be considered large for that time. The data shows that CTI's number of machinery and employees was larger than the average industrial establishments. The number of workers was twice the average and the number of operating weaver looms was more than seven times the average. Those numbers show that CTI operated modern equipments compared to the same sector average, since most were acquired short time earlier. The fact that CTI would use fewer employees per loom has to be analyzed carefully. Many companies used to operate in three shifts but that information concerning CTI was not found. If CTI operated in three shifts it would certainly provide a higher competitiveness. In 1912, the State Department of Labor published an official report with a special chapter about the textile industries in São Paulo.[5] From that document important information were obtained.

[4]CTI Jornal, nº 10, 15/1/1938, p. 2. DMPAHM-DEC-PMT. Since this article was published in the period that the Guisard family held most of the Company's shares when there were several nationalist efforts being implemented by Getulio Vargas government and a generalized push for creating myths by the industrial sector. People like Félix Guisard who were industry captains that intended to legitimize labor ideology. Therefore, it can be inferred that "suggestions' were actually guidance provided by the British for the internal fabric market.

[5] SÃO PAULO (Government). *Bulletin of the State Departamento f Labor. Labor Conditions in the Textile Industry in the State of São Paulo. São Paulo: Governo do Estado de São Paulo, 1912, pp.35-77.* The information compiled in this bulletin refers to 31 factories located in the municipality of São Paulo, one in Santos and another in São

One refers to the large investment amount accomplished by the industries in the state. These investments were associated with several renovations, new enterprise constitutions, and productive capacity expansion both in buildings and machinery.

It was clear in the information obtained that industrial activities in the city of São Paulo were expanding rapidly. This expansion in the state capital influenced its surrounding areas and reinforced this State's industrial vocation while expanding the more traditional industrial activities.

Some companies, among them CTI, were operating much below their maximum throughput capacity what allowed them to expand their production and profits without new investments. This aspect became an important advantage during the First World War because the supply of new equipment was interrupted during that period. Therefore, companies that owned equipments capable of large productivity had that advantage.

The report also provided information about employee profile. The workforce was comprised of 45.8% women and 28% minors. The sum of women and children added to 74.7% of the workforce. In 1908 CTI employee profile had an even larger proportion of women and children: from the 208 total workforce only 22 were men; the 69 children and 117 women added to a total of 89.4% of the workforce.

In the city of Taubaté there was a strike before 1910 that was led by a woman nicknamed Maria Homem. The strike was controlled with violence and shotguns and Maria Homem was banished of the city and dispatched in the first train that passed there.

The first world war period

The period that preceded the First World War was characterized by an increasing crisis in Europe that brought two main consequences to peripheral countries: a decrease in export product prices; and a foreign investment retraction. The foreign trade amount with Brazil decreased from 138 million pounds in 1912 to 82 million pounds in 1914, a 40% reduction. (Delfim Netto, 1961:94)

The Brazilian textile sector could not capitalize in the increase of national product consumption because previous investments instigated competition, obstructing capitalization and, consequently, causing a crisis in this sector. [26]

Bernardo, in a total of 33 factories. This sample is quite significant since Stein accounted for 51 factories total in this State in 1915.

The beginning of the First World War caused an international trade retraction. This aspect allowed the Brazilian textile manufacturers to occupy the market portion formerly supplied by imports. These companies were able to improve production by operating in their maximum throughput capacity using the equipments acquired in the former period.

Concerning Brazilian industrial development during that War, Suzigan(2000:51-61) discusses that based on three main aspects: investments, production and profits, and final analysis, as follows:

A. The War promoted a drastic investment reduction. The data about machinery imports shows a similar proportion of imports in each of the following periods: 1913; from 1914-8 (five years); from 1919-21 (three years); and 1922. This indicates that there was a significant machinery imports decrease by the textile industry during the First World War period. Investments only recovered their higher historical level few years after the end of this international conflict.
B. The industrial production recovered from the 1913/4 crisis by a production increase in the 1915/6 period to fill the internal market demand for consumer goods that were imported before the war. Later the increase in the industrial production rate declined, becoming then negative as a consequence of the interruption of imported raw-materials, supplies, machinery, and equipments.
C. Regarding profits this author's perspective is that they switched due to fluctuations in the need of imported supplies by the diversity of industrial production sectors.

In case of CTI, according to the accounting documentation, its finance increased from 317:657$010 (12.7%) over the capital to 1.500:000$000 (37.5%). This positive finance evolution motivated the Board of Directors to increase the capital in 1920 decade with the goal of building a hydro-electric power station of their own. The CTI capital was raised from 2.500:000$000 to 4.000:000$000 on October 30th, 1920. This capital increase was credited to the shareholders at a rate of 60% of the shares with the transfer of realized gains and without new capital input.

The Board of Directors transferred funds for the acquisition of new machinery, improvement and expansion of production capacity by implementing new cretonnes factory facilities, and getting the well accepted cretonne brands “Canário” and “Forte” in the market.

The above data confirms Fishlow(1972:18/9) statement about capital accumulation during the First World War, enabled by profits increase that, later, would support new investments.

Analyzing the effective CTI investments in this period the major weakness was postponing the construction of the hydro-electric power station. This way CTI could update its plants. In 1913 an agreement was signed with the Deutsch firm Siemens-Schukert to supply those equipments. But in 1913 that contract was discontinued due to the impossibility of supplying equipments during the War, but in 1920 the contract was renewed.

Regarding profits, CTI distributed dividends during all First World War years. At the end of the war, the textile industry showed production expansion capacity exhaustion and the companies made huge efforts to deliver their orders.

Post-war scenario

From the perspective of international economic relationships, the post-war period marks the United States ascension surpassing the European influence, notably the British influence over Brazil. The North-American companies multiplied and disseminated over Brazil and Brazilian public finances became more dependent on New York.(Prado Jr., 1985:266-9

The period immediately after the War was favorable to generating income from Brazilian coffee exports. This income was then distributed among rural workers by increasing wages, what also increased the number of consumers.

Even tough most of the manufactured fabric patterns were developed to meet the requirements of a more selective market with higher purchasing power, the lower quality cotton fabrics continued to be the responsible for a representative portion of the national production.

During the war, there was a social strengthening of groups associated to the industry, especially when the collection of consumer taxes matched customs income in the federal budget. This fact happened during that period for the first time in history.

With the end of the War, the government tried to implement a customs reform of guidelines and proposed a tariff increase for imported industrial products. This proposal caused controversy among industrial leaders. All the representatives of State of São Paulo were against it showing cohesion in a matter of crucial importance as tariff increase. This fact revealed the political power carried out by São Paulo (*paulista*) industry. As a consequence of their influence tariff increase proposal was stopped in the National Congress.

The entrepreneurs of the textile sector continued to expand their operations using as parameter the prospering years during the First World War and investing the profits acquired in that period. The increased machinery import numbers in the beginning of 1920s show the significance of that economic power for future investments.

Dean(1971:140-8) suggests that there was an association between industrial entrepreneurs and farmers in the 1920s, since the former understood that their prosperity depended on the later. Then the government issued a new monetary policy in 1920 that favored the industrial sector. The currency was depreciated by thousand “réis” due to inflation what increased the cost of imported goods and protected the domestic market. At the same time this new policy facilitated exports that had had reduced prices compared to foreign currency.

Investment capacity was improved because equipment could be financed by the manufacturers themselves and because textile workers labor conditions also changed. In one side there was the need for replacing obsolete machinery by updated equipments with the goal of increasing the productivity and promoting more competition advantage. In the other side there were important labor conquests, such as, the 8-hour working day after several shutdowns and strikes. This aspect intensified the investments in capital goods, similar to what had happened with machinery imports. Thus the amount of weaver looms increased 47% from 1915 to 1926.

Textile industry location in Brazil was mostly concentrated in the southern region (specifically in the State of Santa Catarina), but many of them were established in the outskirts of the larger urban centers (as in the case of São Paulo) because the surrounding rural areas provided the necessary raw cotton.

It is important to note that the 1920s was a period of intensive political, social, and economic transformations in Brazilian History. Later, in 1930, Getúlio Vargas came into power, as new president, as the result of emerging social and urban movements from that earlier decade. The post-war republican and socialist triumphs had their ideological influence in Brazilian political and social changes. At the same time those events consolidated a trend that was evolving at that time, that is, the transformation of Brazil into an urban-industrial country. (Lima,1976:340-6)

Misadministration of money policy came to its climax in 1923. Money supply increase caused currency devaluation and inflation. Industries had a great number of their orders cancelled. That aspect worsened the situation due to credit offer retraction and the invasion of the domestic market by foreign products. Brazilian duty tariffs had been reduced between 1914-24 because government determined amounts could not follow the rising foreign good prices. Also Brazilian currency stabilization provided additional benefit to foreign goods in the mid 1920s.

At first manufacturers strongly believed that currency stabilization was the most urgent economic matter in Brazil at that time and they expressed no concern to government officials and politicians for adopting such rule. However, soon the economic situation got worse and manufacturers started asking new credit lines to the government through its bank (B*anco do Brasil)*, as well as exchange rate stabilization and customs duties increase for woolen and cotton products. But their requests were not considered.

Increasing pressure from the larger urban areas influenced policies of the new president Arthur Bernardes. His government soon adopted monetary policies for taking currency out of circulation and increasing exchange rate valuation.

In 1919, *CTI* manufactured 6.132.600m of longcloth, cretonne, and stripped fabrics that yielded 1.551:526$430. The distributed dividends reached 22% over the capital. Félix Guisard and his wife went to Paris and London invited by British officials. Guisard was a member of Brazil's Board of Trade and Industry and, as consequence, used to visit British industries officially. Guisard took advantage of that trip to bring new business for CTI. One major investment obtained came to be used in the construction of a hydroelectric power station, possibly following the Board of Directors instructions for a new fund formation.

The total amount of the electric equipment ordered from Siemens-Schuckert added to 500:000$000 with 16% discount. However, the supplier did not fulfill the contract signed on May, 15th, 1913 and equipments were not delivered. The capital increase mentioned earlier should be directed to acquiring new machinery since the goal was increasing CTI's cretonne and longcloth production.

The Board of Directors analyzed the workers demand for reducing the daily working hours from 10 to 8 hours a day and decided to implement that demand without penalties or salary reduction. The 8-hour working day was already a reality implemented in several industrial facilities in the State of São Paulo state as a result of intensive worker movements and strikes between 1917 and 1919.

In 1922, CTI increased its capital from 4.000:000$000 to 5.000:000$000 by increasing its capital in 1.000:000$000 associated to the hydroelectric power station construction, since the lack of energy was compromising the company's production capacity.

Therefore, this capital increase was a result of new capital subscription without providing preference to shareholders' subscription. Share capital increase associated to shareholders' preference acquisition did not represent significant change in share ownership proportions. Even though, the Guisard family increased their share proportion in 0.95%. This family members occupied several important positions at CTI administration that resulted in the increase in their share control. Regarding British capital, both shareholders and individuals increased their proportion in 0.53% by adding new shareholders. This fact demonstrates a tendency in the 1920s associated with new investments in shares coming from central countries. Galbraith (1972) shows that tendency in his studies about the speculative movement prior to the New York Stock Exchange crash of 1929.

CTI assets also increased with the purchase of new housing facilities for its workers, the construction of a new building, and the purchase packaging machinery for manufacturing its own product packages.

A CTI Board of Directors report informed shareholders that the textile market was experiencing unstable conditions due to cotton price increase. Also electric energy supply continued affecting its production. During 1923, despite considerable rainfalls, cotton production was severely affected by drought during the month of August. In the following year the dry weather was even more intense and affected cotton production during almost the entire second semester.

Parallel to those events, CTI continued the hydroelectric power station construction initiated in 1923. The heavy rainfalls of that same year damaged roads and made difficult accessing the margins of the river. This caused additional delay to the project that could only be restarted in 1924.

The lack of energy forced the Board of Directors to decide upon an emergence measure, the installation of a Diesel generator with 850

HP. This generator went into operation in 1925, while the hydroelectric facility was still under construction and demanded additional 800:000$000 in investments.

In the 1922/3 period coffee production was experiencing high market values marking the climax of the coffee export based economy. Washington Luís government re-established the exchange office and stabilized the exchange rate by devaluing the Brazilian currency to meet coffee growers' expectations.

The great depression and the crisis in British capital outflow

In the 1926/7 period the international coffee market initiated a trend toward price decrease. The textile industry felt the effects of domestic market demand retraction as well as the British competition in the Latin American market. This new crisis caused a series of textile industry new initiatives throughout the country.

Some companies decided to shift toward producing thicker fabrics that would face much less competition as well as profit increase. Other companies started distributing their products on their own breaking their dependence on major textile wholesalers.

Simultaneously, some industrialists started a process of strengthening their level of organization. Industrialists from São Paulo founded the Industrial Association of the State of São Paulo in 1928. This Association had Francisco Matarazzo as president and Roberto Simonsen as vice-president.

One important result of that Association was getting the approval of a major tax reform in 1929. After the reform, cotton fabric with average and superior quality imports decreased from 8.310.615 kg in 1928 to 1.338.304 kg in 1930. However, the textile industry followed the worsening of Brazilian economic difficulties during 1929/30 and all those industries ended with profit losses and lack of dividends.

The crisis resulted in textile production retraction and an increased sentiment of industry unpopularity among the consumers. As consequence, a project presented to Congress that foresaw establishing paid annual vacation to industrial workers and restricting minor employment in the industry was rejected due to the consumer resistance to its approval.

The government of Getúlio Vargas that began in October of 1930 recognized the industry importance for the country and expanded the influence of textile industrialists in government decisions. Those from the states of Rio de Janeiro and São Paulo had more influence that even surpassed the previous coffee growers' oligarchy influence. [48]

Therefore, the Brazilian textile industries through their associations began to collaborate heavily with new governmental policy and, as a result, transformed their economic power into political power.

Textile industry entrepreneurs determined that their major problem was "overproduction" and began to support government measures toward avoiding the increase in production capacity in this industry segment.

This objective was achieved by restricting textile machinery imports determined by the Decree No. 19739 of '17 March 1931'. This Decree restricted equipment import for all industries considered being in the state of "overproduction" status during the last three years. In '13 May 1931', the cotton textile industry was declared under overproduction status. The machinery import control resulted in freezing some relative market positions of the textile industries in Brazil, benefiting the industries that had supported Getúlio Vargas candidacy for President.

CTI had a positive profitability level die to the investments in new machinery, its own hydroelectric power station, and its operation without financial costs, since those investments were financed with reserve funds.

However, the international crisis reached the Edward Asworth & Co. firm and led it to bankruptcy. The Board of Directors reported during the Extraordinary Shareholders General Meeting that the Brazilian branch had left many debts with Brazilian banks. At that time CTI working capital was supported by that British firm dishonored bills that were endorsed and discounted by creditor banks. In order to solve that problem CTI emitted debentures in the value of 5.000:000$000 and gave its property, machinery, and the hydroelectric power station as warranties.

Due to those circumstances the Guisard family undertook the share control of the company. CTI had 1,288 weaver looms (representing 1.55% of Brazil's total), an yearly production of 11 million meters of fabrics (1.75% of Brazil's total), around 1,500 employees (1.3% of Brazil's total), and 5,000 "*contos de réis*" of working capital (0.75% of Brazil's total). Those numbers placed CTI as one of the major players in the Brazilian textile industry context.

Conclusions

Most municipalities located in the State of São Paulo that cultivated coffee developed an urban infrastructure, had workforce available seeking job opportunities, had easy access to transportation networks, and accumulated capital that originated from direct and indirect manufacturing activities. Paraiba do Sul River Valley received the expanding effects of the more dynamic industrial centers of the country, although with lower intensity.

While most of the industries were concentrated in the capital city of São Paulo and, at the same time, increasingly diversified (e.g. metallurgical and chemical plants), the more traditional textile industry sector shifted its location from the capital to the interior, specially to the Paraíba do Sul River Valley region. This shift allowed the peripheral industry development of the textile sector as it had occurred in the city of São Paulo in the previous decades regarding the imported consumer products.

Although CTI had emerged earlier as a company, this peripheral development process took effect on the company after 1910 when the British control started. It is important to emphasize the double convenience of that operation: (1) it protected the interests of Edward Asworth concerning the increasing domestic demand; and (2) it made the company more independent of the uncertainties and instabilities caused by exchange rate variation and public account fluctuation.

Prior to that the British capital influence in 1900 was more effective on the commercial activities of the British branch of Edward Asworth & Co. in Rio de Janeiro. When it was also responsible for investment management towards production diversification and expansion.

CTI administration became mainly British from 1911-30. During this period investments expanded dramatically because the only way to get the specific production raw materials needed was through direct investment. The construction of the hydroelectric power plant was the greatest enterprise implemented in that same period.

At the end of 1920s CTI was the largest industry of the Paraíba do Sul River Valley region and was among the largest industries of Brazil.

The British capital outflow of late 1920s was caused by external factors associated with the great depression. It caused the return of domestic fund investments to support the industry sector and virtually frozen international investments.

In that period of national capital control CTI, considered a large company, received Brazilian government protectionist benefits through the new public policies adopted. That resulted in the company living longer than the crisis of that time.

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