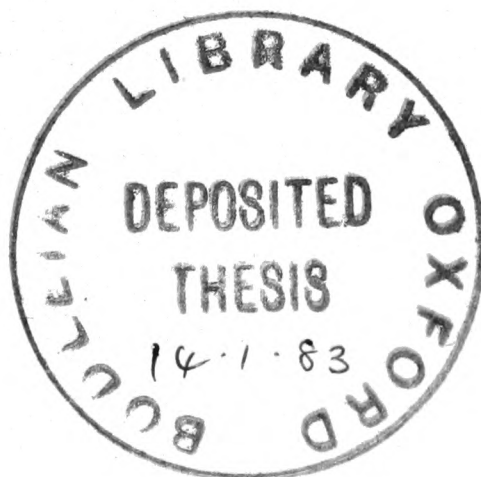


THE POLITICAL AND IDEOLOGICAL CONSTRAINTS TO
ECONOMIC MANAGEMENT IN BRAZIL, 1945-1963.

LOURDES SOLA

Thesis submitted for the Degree of Doctor of Philosophy
in the University of Oxford.



Somerville College

Trinity Term 1982

"The Political and Ideological Constraints to Economic Management in Brazil, 1945-1963", Lourdes Sola, Somerville College, D. Phil., Trinity Term 1982.

ABSTRACT

The objective of this case study on economic management in Brazil is to evaluate the scope and nature of political and ideological factors which affected the process of policy formation from the redemocratization of the country in 1945 until the breakdown of the democratic regime in 1964. Special emphasis is attributed to the reconstruction of the decision-making processes behind the formulation and execution of an agreed economic strategy intended to promote fast economic growth in the 1950's and to the analysis of the political and ideological factors which made acute disequilibria and recession unmanageable within the democratic framework, in the early 1960's.

In order to account for the achievements and vicissitudes of economic management in Brazil we focus on the role and function of the state as the key agent in the process of rendering compatible the requirements imposed by economic necessity and the political priorities arising out of the structure and dynamics of the Brazilian political system. Special emphasis is given to the political actors located within the decision making system in particular the técnicos of differing political persuasions, their economic ideologies and their patterns of political action.

The reconstruction of the process of policy formation in democratic Brazil is designed to contribute to the current debate on economic and non-economic determinants of the emergence of authoritarian regimes in Latin America. An introduction to our own approach to this question is provided in Chapter I, in connection with discussions current in the relevant literature.

In Chapters II and III, we provide an historic reconstruction of the process of policy formation during the late 1940's and 1950's in order to show how technical knowledge and expertise were mobilized as political resources at the service of an economic strategy which shaped the present pattern of capital accumulation in Brazil. Chapter IV examines the political and ideological factors which explain the resumption of inflationary governmental behaviour and over-reliance on foreign debt in the expansionary phase of the economic cycle.

In Chapters V, VI and VII we seek to account for the unmanageability of acute disequilibria and recession in the early 1960's through an analysis of the institutional framework and the extremely unstable political background within which any proponents of stabilization-cum-growth policies would have to act.

THE POLITICAL AND IDEOLOGICAL CONSTRAINTS TO
ECONOMIC MANAGEMENT IN BRAZIL, 1945-1963.

Introduction	1-4
PART ONE: POLICY FORMATION AND ECONOMIC GROWTH IN THE LATE 1940's AND 1950's: TECHNICAL KNOWLEDGE AND THE POLITICAL MANAGEMENT OF THE ECONOMY.	
CHAPTER I - The <u>Técnicos</u> and the Political System: The Analytical Framework	
INTRODUCTION	p.10
1. The <u>Técnicos</u> and Developement: The Relevant Issues	p.12
2. The Political Context: relevant issues	p.23
3. The role of ECLA.	p.26
CHAPTER II - Technical Knowledge and the Political constraints to coherent Economic Management in the post-war years 1945-1954.	
1. Planning and Industrialization: the ideological matrix of the post-war controversy on allledgedly non- antagonistic tasks.	p.28
2. Technical Knowledge and experience in the post-war years:	p.43
2.1 The Dutra's Years	p.47
2.2 The Vargas Years	p.62
a) Varga's Two Arms: the nationalist project and the diagnosis of the Mixed Commission.	p.67
b) The accumulation of technical and scientific experience.	p.82
c) The parameters of "class collaboration" under economic stress.	p.84
i) the creation of the BNDE	p.89
ii) the stabilization programme of 1953	p.93
iii) the political constraints upon the implementation of development policies:	p.101
CHAPTER III - The <u>Técnicos</u> <u>Nacionalistas</u> : Economic Ideology, Value System and Patterns of Political Action.	
1. The basic options and economic ideology.	107
2. The <u>nacionalistas</u> : mode of insertion in the political system and patterns of action.	114
3. Industrialization and Planning: the conversion of economic goals into mechanisms for the legitimization of the regime under Kubitschek	p.132

CHAPTER IV - The Political Constraints to Stabilization Action and the Resumption of Inflationary Governmental Behaviour: 1956-1959	p.142

1. The Economic Background: The resurgence of disequilibria in the light of the pattern of capital accumulation introduced in 1956.	p.144
2. To the Rescue of the Target Plan: The Monetary Stabilization Plan	p.152
2.1 The immediate Political Circumstances	p.153
2.2 The Monetary Stabilization Plan: diagnosis and prescriptions.	p.157
3. The Resumption of Inflationary governmental Behaviour and Escalating Indebtedness: an undesired way to circumvent the Plan.	p.168
3.1 The reactions of coffee growers	p.170
3.2 The first reactions in Congress and the business groups	p.173
3.3 The Congressional Decisions.	p.174
3.4 Entrepreneurs and the <u>Técnicos</u>	p.179
4. The Politicization of economic issues and its impact on the ruling coalition: <u>Técnicos</u> and <u>Políticos</u>	p.186

CONCLUDING REMARKS	p.190

PART TWO: THE GROWING PAINS OF POLITICAL AND ECONOMIC UNCERTAINTY AND
THE RESUMPTION OF INFLATIONARY GOVERNMENTAL BEHAVIOUR 1961-1963.

INTRODUCTION PART TWO	p.195

CHAPTER V - The Economic Constraints and the New Directions of Economic Policy: 1961-1963	p.200

1. The Performance of the Economy in 1961-1962: long term factors and the role of economic policies.	p.200
1.1 The Private Sectors and Public Corporations	p.207
1.2 The Central Government: financial constraints and the institutional framework.	p.210
1.3 The Stabilization Policies of 1961-1962: rationales and results.	p.214

2. The Three Year. Plan of Economic and Social Development.	p.225
2.1 The main targets and the case for gradualism.	p.226
2.2 Diagnosis of the main sources of economic disequilibria.	p.230
a) The Primary Sources of Disequilibria: the Foreign Sector and the Treasury's Deficit	p.231
i) Foreign Sector	p.231
ii) The Budget Deficit	p.234
b) Social Inequalities, the pattern of income distribution and the function of the agricultural sector.	p.235
2.3 The main prescriptions, guidelines and policies	p.238
a) the budget deficit	p.238
b) the Foreign Sector	p.242
2.4 The Implications of the stabilization-cum-growth strategy and the <u>técnicos</u> political calculations	p.243
CONCLUSIONS	p.250
CHAPTER VI - The Changing Nature of the Political Constraints to Plan Implementation 1959-1962	p.255
1. Introduction	p.259
2. The "growth Points" of political destabilization 1959-1961	p.263
2.1 Sudene and the oligarchic pact: circumventing the veto power of the "centro" in Congress.	p.267
2.2 The Quadros' Government: the performance of the reform function by the State and the weakening of civil power.	p.278
2.3 The labour front: from class conciliation to a strategy of dissensus.	p.293
3. The vicissitudes of a new strategy of consensus: the parliamentarist interlude, september 1962 -January 1963	p.303
3.1 The Adoption of Parliamentarism	p.303
3.2 Polarization under the Unity Cabinet	p.307
3.3 Goulart opts for radicalization: the institutional deadlock and the strengthening of military power	p.314
3.4 Pressures from the left and the rise of PTB.	p.321
CHAPTER VII - The last-ditch attempt at a Political Management of Disequilibria: The Three Year Plan and After, January - December 1963	p.325
1. <u>Técnicos</u> and Politicians: a last attempt at Reforms through Persuasion, January - March 1963	p.325

2. Lost in no-man's land: March-June 1963	p.340
2.1 The key sources of dilemmas: the resumption of inflationary governmental behaviour and the political strategy of the USA	p.342
a) reasons for the contrast between economic targets and results in the first quarter	p.342
b) The Dantas Bell Agreement	p.346
2.2 The Politicization of Economic issues: ad hoc responses to deep seated dilemmas	p.350
a) the labour front	p.352
b) the civil servant's movement and the reformist offensive of the government: the two <i>final</i> blows to the political strategy of the <u>técnicos</u>	p.358
2.3 The New Ministry and the Performance of the Economy in 1963.	p.365
CONCLUSION	p.374
BIBLIOGRAPHY	p.390

To my parents

Acknowledgements

My first interest in the problems of policy formation in a politically conflictive and unstable environment dates from my stay in Chile between 1969 and 1973. I owe an immense debt of gratitude to the numerous friends and colleagues among the Brazilian diaspora there and in Europe in subsequent years for countless hours of discussion and debate. In particular I should like to express my thanks to the many individuals named in the text, where they did not request anonymity, who made themselves available to me for often lengthy interviews, and in some cases opened their private archives to my inspection. Without their cooperation this thesis would not have been possible. Professor Celso Furtado in particular was extremely generous with his time, and also provided active support at a time of great professional uncertainty following my arrival in England from Chile. His performance as my supervisor in Cambridge in the academic year 1974-5 demonstrated his unwavering commitment to intellectual independence and respect for systems of values not his own.

The conception and development of this work from 1977 onward owe much to the firm yet light-handed supervision of Laurence Whitehead, whose perceptive suggestions and unfailing encouragement throughout my years at Oxford, and particularly in the final stages, merit credit which cannot be adequately repaid in footnotes and references. The cooperation of Rosemary Thorp was equally invaluable. Her generosity, well known among those acquainted with her, was reflected in support which went far beyond her careful reading and illuminating discussion of my first draft. Her reassuring criticism and supportive comments have played a vital part since I first undertook this project in allaying my doubts regarding the treatment of economic issues.

Among Brazilian social scientists special mention should be made of Eduardo Kugelmas, whose profound knowledge of the politics of economic policy from the First Republic onward helped me greatly in shaping my own approach to the position of the técnicos in the Brazilian political system.

I am also indebted to Paul Cammack, for correcting and polishing my fractured English.

I thank the Ford Foundation of Brazil, in conjunction with the Institute of International Education, for financial support without which I would have been unable to travel to Oxford or to return to Brazil for further periods of research. I also thank my colleagues at the Instituto de Filosofia e Ciências Humanas of the University of Campinas for lightening my workload and in particular for releasing me in recent months, at an especially critical time for that university.

My debt to my 'extended family' in England for their multiple demonstrations of intellectual and emotional support since I arrived here is enormous. I give my warmest thanks to Ivonne Rieseberg and Emmanuel Kowalski, and in a very special sense to Ruth and Norman Malcolm and Tamara Deutscher.

Finally, my deepest gratitude to Mr. and Mrs. Sola, to whom I dedicate this work, and to Julia Impáléa, for their unfailing emotional and material support in times of acute political and economic uncertainty.

ABBREVIATIONS

ADP	:	Ação Democrática Parlamentar (Parliamentary Democratic Action)
AMFORP	:	American and Foreign Power Company
BB	:	Banco do Brasil (Bank of Brazil)
BNDE	:	Banco Nacional de Desenvolvimento Economico (National Bank for Economic Development)
CE	:	Clube de Economistas (Club of Economists)
CGT	:	Comando Geral dos Trabalhadores (General Labour Command)
CNBB	:	Conferência Nacional de Bispos Brasileiros (National Conference of Brazilian Bishops)
CNE	:	Conselho Nacional de Economia (National Economic Council)
CNI	:	Confederação Nacional da Indústria (National Confederation of Industry)
CNPQI	:	Conselho Industrial de Política Industrial e Comercial (National Council for Industrial and Trade Policy)
CNTI	:	Confederação Nacional dos Trabalhadores da Indústria (National Confederation of Industrial Workers)
CPE	:	Conselho de Planejamento Econômico (Economic Planning Council)
CRB	:	Confederação Rural Brasileira (Brazilian Rural Confederation)
DASP	:	Departamento Administrativo do Serviço Público (Administrative Department of the Public Service)
DNOCS	:	Departamento Nacional de Obras contra as Secas (National Department for Prevention of Droughts)
DNPS	:	Departamento Nacional de Previdência Social (National Department of Employment and Wages)
ECLA	:	Economic Commission for Latin America.
FIESP	:	Federação de Indústrias do Estado de São Paulo.
FGV	:	Fundação Getulio Vargas (Getulio Vargas Foundation)
FMP	:	Frente de Mobilização Popular (Popular Mobilization Front)
FPN	:	Frente Parlamentar Nacionalista (Parliamentary Nationalist Front).
IBAD	:	Instituto Brasileiro de Ação Democrática (Brazilian Institute for Democratic Action)
IBGE	:	Instituto Brasileiro de Geografia e Estatística (Brazilian Institute of Geography and Statistics)
IMF	:	International Monetary Fund.

IPES : Instituto de Pesquisa e Estudos Sociais (Research and Social Studies Institute)

ISEB : Instituto Superior de Estudos Brasileiros (Institute of Brazilian Studies)

PCB : Partido Comunista Brasileiro (Brazilian Communist Party)

PAEG : Plano de Ação Econômica do Governo (Governmental Plan for Economic Action) (1964-65)

PEM : Plano de Estabilização Monetária (Monetary Stabilization Plan) 1959.

PDC : Partido Democrata Cristão (Christian Democratic Party)

PSD : Partido Social Democrata (Social Democratic Party)

PSP : Partido Social Progressista

PUA : Pacto de Unidade e Ação (Pact for Unity and Action - CGT affiliated coordinating body for rail, port and maritime workers)

PTB : Partido Trabalhista Brasileiro (Brazilian Labour Party)

SUDENE : Superintendência do Desenvolvimento do Nordeste (Agency for the Development of the Northeast)

SUMOC : Superintendencia Nacional de Moeda e Crédito (Credit and Monetary Agency)

TP : Target Plan (Plano de Metas) 1955.

TYP : Plano Trienal (Three Year Plan) 1963.

UDN : União Democrática Nacional (National Democratic Union)

UNE : União Nacional de Estudantes (National Union of Students)

UST : União Sindical dos Trabalhadores (an unofficial organization of trade unions)

Yo afirmo - sin remilgado temor ni novelero amor de la paradoja - que solamente los países nuevos tienen pasado; es decir, recuerdo autobiográfico de él; es decir, tienen historia viva. Si el tiempo es sucesión, debemos reconocer que donde densidad mayor hay de hechos, más tiempo corre y que el más caudaloso es el de este inconsecuente lado del mundo.

Sin embargo, ¿a qué traer destinos ya muertos? Yo no he sentido el liviano tiempo en Granada, a la sombra de torres cientos de veces más antiguas que las higueras, y sí en Pampa y Triunvirato: insípido lugar de tejas anglizantes ahora, de hornos humosos de ladrillos hace tres años, de potreros caóticos hace cinco. El tiempo - emoción europea de hombres numerosos de días, y como su vindicación y corona - es de más imprudente circulación en estas repúblicas. Los jóvenes, a su pesar lo sienten. Aquí somos del mismo tiempo que el tiempo, somos hermanos de él.

Borges

1930.

Introduction

The reconstruction of the historical process of policy formation during the period of Brazil's second experiment with political democracy which is the major objective of this work is undertaken for analytical rather than descriptive purposes. The selection of a period opened and closed with drastic regime change is of both theoretical and political significance and some account must be given of our own decision to focus upon management in democratic Brazil.

Brazil has the dubious privilege of leadership over other nations in the southern cone, as the first case of a new type of authoritarian regime. The management of the acute internal and external disequilibria which characterized these countries immediately prior to the breakdown of democratic regimes has long been seen as the most substantial service performed by the new ruling coalition of civil and military bureaucrats which came to power. The rejection by the new policy makers of the need to implant and nourish the social disciplines demanded for effective stabilization by formulating and executing an agreed economic strategy acceptable to rulers and ruled alike is one of the trade-marks of bureaucratic authoritarianism.¹ By the same token, neglect of the political management of disequilibria - an essential task in democratic regimes - was a pre-condition for the 'economic efficiency' which was the self-appointed goal of the new rulers.

A major effect of the radical change of political rules in the countries in question was to dispel the utopian connotations which had surrounded the idea of economic development in the post-war years, whether as a field of study or as a transforming force which legitimized such activities as planning and industrialization. As a consequence, irreparable damage has been done to the idea that properly channelled economic expansion could provide the best hope and the best guarantee of the liberation of the forces of political

1. See F.H. Cardoso, "On the characterization of authoritarian regimes in Latin America", in Collier (ed), The New Authoritarianism in Latin America (Princeton, 1980).

advance, and the broadening of the scope of democracy. In the 1970s, political analysts and ordinary citizens alike were forced to bow to the evidence that the evolutionary models borrowed from the leading capitalist countries, like the liberal constitutions appropriated in the nineteenth century, were 'ideas out of place' in Latin America. It fell upon analysts in those countries to give an account of a state of affairs in which the installation of bureaucratic-authoritarian regimes represented not only a step backwards in historical terms, but also the breakdown of a political culture. The system of values underlying the economic ideology which informed the policies implemented under the banner of 'economic development' aimed at establishing a more substantive democracy was seriously undermined.

However, the analyst of the Brazilian case must carry an additional burden. The existence of common denominators in the techniques of governmental action utilized by policy makers in the relevant regimes should not obscure the fact that the Brazilian experience has in some ways been unique. This is owed in part to the fact that the changes in the institutional and political framework which ensured the reversal of economic disequilibria did pave the way for the renewed burst of capital accumulation which commenced four years later. The economic performance which brought about the expansion and diversification of the structure of production introduced in the late 1950s contrasts with the dismantling of similar structures in other countries. This severely constrains the scope for generalization and thus reduces the explanatory power of comparative analysis, and on a more practical level dulls the edge of technical criticisms of the new model of growth. The Brazilian case can be invoked against the under-consumptionist theses behind which, after the event, Brazilian structuralists and marxists sought to rally their critical and political forces.¹

A major aspect of continuity between the pre-1964 and post-1964 experience of economic policy making in Brazil lies in the scope and extent of state

1, See John Wells, "Growth and fluctuations in the Brazilian manufacturing sector during the 1960s and early 1970s", (Ph.D., Cambridge, 1977).

intervention in the economy, intensified in the 1950s and again after the drastic change in political rules. The state, rather than the market, remained the principal agent redistributing the privileges and penalties associated with capital accumulation and with the disciplines of effective stabilization action. Furthermore, the architects of the political and economic strategy which generated the previous burst of capital accumulation in the late 1950s through the Target Plan were again brought to the centre of the political stage as principal exponents of the new orientation given to economic policy between 1964 and 1967.

We are therefore obliged to seek out the structural and conjunctural reasons of a political and economic nature for the combination of radical regime change and the unique history of economic management in Brazil. For reasons to be detailed in chapters I and II, we find it essential to locate the process of policy formation in the politically unstable context following upon redemocratization in 1945, in order to account for the changing mode and aims of the 'intervention syndrome' throughout the democratic period; it appears to have been this, in a suitable adapted form, which was a major pre-condition for renewed growth after 1964.

Hence we turn to an analytical history of the process of policy formation as a lens through which we can examine the issues which will concern us throughout this work. These issues, presented in chapter I and re-examined in our conclusions, fall within the current debate upon the economic and non-economic determinants of the turn to bureaucratic authoritarianism in Latin America.¹ By way of an introduction here we should like to indicate the position of the present work in relation to two influential types of interpretation of regime change in Brazil.

Hirschman's approach to this question stems from a critique of economic theses which postulate a direct and simple causal relationship between the exhaustion of a phase or model of economic growth and the loss of efficiency

1. See Hirschman, "The turn to authoritarianism in Latin America and the search for its economic determinants", and José Serra, "Three mistaken theses regarding the connection between industrialization and authoritarian regimes", in Collier (ed), 1980.

of a political model resting on an alliance between industrial elites and popular sectors.¹ He places particular emphasis upon the general economic factors which severely limited the range of growth-promoting actions open to policy makers in the period immediately before the change of regime. These include the exhaustion of the institutional arrangement through which import-substituting industrialization was financed: inflation-cum overvaluation, combined with strict import controls and a reliance on foreign borrowing and direct investment. The reasons for the ~~unmanageability of a~~ of internal and external disequilibria and of recession on the eve of regime breakdown in the relevant countries are sought in the main in the inadequate perception by policy makers and the intellectual elite of the new requirements imposed by economic necessity.

In short, by focussing on the economic ideology of the relevant political actors as an explanatory factor he is led to accord particular emphasis to policies which deprived the ruling coalition of the legitimacy required to keep it in power. We are offered, therefore, an approach to the process of political destabilization of popular regimes which gives pride of place to the dynamic interplay of intrinsic pressures for continued growth imposed by the structure of the economic system, and typical and recurring ideological factors which preclude the formulation of a consensual economic strategy. This is a point to which we shall return.

One methodological implication of this approach is that in his search for typical trends Hirschman fails to account for the political factors which might have constrained 'rational' economic management, and to which policy makers had to defer in the democratic regimes. This is hardly accidental, for the systematic incorporation of such political imperatives into his explanatory model would oblige him to conduct a prior examination of the structure and dynamics of the political regimes in question, and their specificity would reduce the scope for generalization.

An alternative set of explanations for the change of political rules in Brazil seeks to recapture the unique structure of the Brazilian political system in the pre-1964 years, and to escape the economism of previous interpretations

1. Hirschman, op. cit.

by this route. In this case, the crisis of the political model is seen as obeying a logic of its own, stemming from the loss of efficacy of the control dimension of populism (Erickson), which was itself one of the crucial elements in the 'social compact' which supported governments prior to that of Goulart.

This political understanding between the executive, the ruling party coalition in congress and the trade union leadership has been analysed by Flynn, and figures largely in Campello de Souza's study of the origins and crisis of the party system in Brazil.¹ However, even when the political conjuncture immediately preceding the change of regime is studied with care, as it is by Flynn and Erickson, the changing nature and scope of the economic factors which hindered the immediate implementation of ideologically desirable policy solutions are neglected or at best treated as asides.

The net result, with both types of interpretation, somewhat paradoxically in the latter case, is that the state and the techniques of governmental action aimed at rendering compatible the requirements of economic necessity with a modicum of democracy in changing circumstances are treated as residual categories.

Our approach to the process of policy formation in democratic Brazil and to regime change represents a shift of focus in relation to both types of interpretation. The state is brought to the centre of the stage, and with it a spotlight upon two types of political actor who played vital parts in the process of economic management: the técnicos and the politicians located within the decision-making system. At this point it is sufficient to state that the set of policies developed to finance industrialization from the 1950s onward can be approached from a political standpoint. Through the manipulation of the exchange regime and of the inflationary financing of entrepreneurial activity, the state was the leading actor in the process of permanent redistribution of real resources, penalties and privileges indissociable from the process

1. Peter Flynn, Brazil: A Political Analysis (Westview Press, 1978), pp. 266-308; Kenneth Erickson, The Brazilian Corporative State and Working Class Politics (University of California Press, 1977), and Maria do Carmo Campello de Souza, Estado e Partidos Políticos no Brasil (Alfa-Omega, São Paulo, 1976).

of capital accumulation. In the Brazilian case this redistribution took place between sectors, from the export sector to private and public industry, and from wages to profits. We shall seek to show that the development and consolidation of the 'intervention syndrome' did not result from a coherent set of policy prescriptions, and was not at the service of a single project of capitalist development in Brazil. It was the result of a succession of ad hoc adjustments, in which political priorities in different conjunctures of political and economic uncertainty were factors as decisive in the explanation for particular policy choices as was the economic ideology of their protagonists.

In the pages which follow we shall approach the process of policy formation in different conjunctures as the historical outcome of the dynamic interaction of three types of factor: the changing requirements imposed by economic necessity, the mode of perception of economic necessity by the political actors best equipped to interpret it, the técnicos, as refracted through the economic ideologies to which they subscribed, and the structural and conjunctural political factors which hindered or furthered competing projects for capitalist development in Brazil, projects formulated and disseminated, in the main, from within the state apparatus itself.

Special emphasis will be given to the interplay of these factors in two conjunctures of political and economic uncertainty in which the implementation of a coherent set of stabilization-cum-growth policies by técnicos of differing persuasions was at issue, in 1958-59 and 1963. In each of them we shall be concerned with the reasons for the contrast between the intentions and outcomes of economic policy making, and hence with the unmanageability of disequilibria in the expansionary (1958) and recessionary (1963) phases of the economic cycle.

Our hypothesis is that it is possible to draw a contrast between the two conjunctures, despite the fact that the postponement of stabilization action and the resumption of inflationary governmental behaviour furnishes a common factor between them. A contrast can be established in terms of 1) the different political obstacles to the management of disequilibria, in periods of economic

expansion and retraction respectively, and 2) the political dynamics of stabilization, in terms of the extent to which the mobilization of major political actors had a cohesive or disruptive impact upon the ruling political coalition.¹

We do not suggest, however, that the respective conjunctures were unrelated to each other. One of our main contentions will be that the assertion of the growing pains of disequilibria in 1959 in the wake of the postponement of stabilization action had feedback effects of an ideological and economic nature and served to disrupt the system of political alliances and contribute to the failure to settle on an agreed economic strategy in the early 1960s. Finally, the fact that the proponents of stabilization-cum-growth policies in 1959 were the architects of economic policy after 1964, while the técnicos estruturalistas were the authors of the stabilization plan of 1963, will help us to elucidate two questions essential for the analysis of radical regime change in Brazil. The first is the scope and nature of the political imperatives to which policy makers of all persuasions had to defer, and the second is the existence of some technical common ground on vital economic issues between técnicos subscribing to different economic ideologies, and the widening gap between técnicos on the one hand, and politicians on the other, as they faced differing dilemmas at each conjuncture.

It will be possible, we hope, in this way, to explain why macro-economic rationality came to prevail over political calculations and priorities only in 1964.

1. Our political approach to inflation and stabilization and our treatment of the state as a key category owes much to Laurence Whitehead, "The Politics of Inflation", mimeo, Nuffield College, Oxford, 1977.

PART ONE

POLICY FORMATION AND ECONOMIC GROWTH IN THE LATE 1940's and 1950's:
TECHNICAL KNOWLEDGE AND THE POLITICAL MANAGEMENT OF THE ECONOMY.

"With increasing frequency we are told these days that in the West ideology is dead, that 'the old passions are exhausted', that we no longer are in the 'disposition to approach policy as though great ideological issues were to be decided'...rather, we are now picturing ourselves as reasonably sophisticated 'incrementalists' bored with yesterday's ideological bouts..."

"If this is so, then we are seriously out of phase with the mood prevailing in Latin America. For there, ideologies are in their accustomed roles, holding men in their grip, pushing them into actions that have important effects, both positive and negative, on economic growth..."

Hirschman, 1961.

"No, no, don't say technocrats...yes, technicians (técnicos) would be right. 'Technocrats' didn't exist in those days...It's a new phenomenon of the last few years...It was only during the fifties (but also not during Getulio's first term) that 'técnicos em fins' were produced...The idea that Reason has its own ends, which comes from Kant, is a true one. The fact that man has objectives cannot be dissociated from his ability to reason...That's why Weber's distinction is such a good one between the rationality of ends and of means..."

"We can argue here about our right to a second bottle of wine. But there cannot be any technical controversy about what the minimum standard of living should be for a man to be able to be a man."

Celso Furtado, Paris, 1977.

CHAPTER I

THE TÉCNICOS AND THE POLITICAL SYSTEM: THE ANALYTICAL FRAMEWORK

Introduction

An analysis of the political and ideological constraints to economic management in Brazil under the democratic regime requires a prior reconstruction of the political spectrum within which the técnicos were located. This reconstruction, provided in the second and third chapters, is analytical rather than descriptive in intent. We shall seek to show that the term técnicos desenvolvimentistas, current from the Kubitschek period onward, does not capture adequately the various currents which temporarily came together during that period of intensive industrialization, and to establish the relative positions of the relevant actors as defined by the mid-1950s, between the suicide of Vargas in 1954 and the accession to power of Kubitschek in 1956. It was in this interlude, opened and closed by military intervention, that the first critical conjuncture of political and economic uncertainty took shape. In chapter 2 we shall show how the different positions adopted developed in the post-war years in a changing national and international political and economic context, and focus on the processes through which technical expertise and political experience were gradually accumulated by técnicos of differing persuasions.

Chapter 3 will provide a more systematic account of the economic ideologies of the técnicos as they emerged when the Vargas cycle came to an end. We will be concerned in the main with the economic ideology, system of values, and patterns of indirect political action of one particular sub-group of the técnicos desenvolvimentistas, the nacionalistas who favoured a structuralist approach to policy-making.

In this chapter, we shall lay out the analytical and conceptual framework within which the place and function of the técnicos in the Brazilian political system will be approached.

1. The técnicos and development: the relevant issues

The range of alternatives open to the técnicos at any given time is reconstructed here in accordance with three linked criteria: a) the actors' perceptions of the basic options for capitalist development in Brazil, as reflected in their economic ideology; b) their mode of insertion into the state apparatus; and c) the areas in which they sought to influence the formation of elite opinion, as expressed in terms of the patterns of action considered preferential for intervening in the decision-making system. As we shall see, these patterns are directly related to the systems of alliances which the técnicos sought to set up with other political actors. For obvious reasons, the discussion here is limited to one kind of técnico - the economist, in terms of academic qualification or professional practice.

When one seeks to locate the técnicos in this way, two immediate problems arise. The first, of a general nature, relates to the highly politicised context within which the debate between the técnicos on such allegedly non-antagonistic tasks as planning and industrialization took place in the immediate post-war period. The observer is struck by the fact that technical and scientific knowledge was openly put at the service of divergent political stances, rather than seen as an autonomous source of authority, as a purely technocratic orientation would imply.¹ In these circumstances, to what extent can one speak of the technocrat, who according to some authors consolidated his position in the Brazilian political system during the Kubitschek administration, as a new political actor?²

1. See Meynaud, J., La technocratie Paris, (Payot, 1970), and Martins C., Tecnocracia e Capitalismo, São Paulo, (Brasiliense, CEBRAP, 1974), and A Tecnocracia na História, São Paulo, (Alfa Omega, 1975).

2. See Martins, L., Pouvoir et Développement Economique - Formation et Evolution des Structures Politiques au Brésil, Paris, (Anthropos, 1976).

In order to speak of a technocracy proper, one would have to meet at least two requirements: 1) the availability, and advocacy by the relevant actors, of a doctrine on the derivation of authority which legitimated the exercise of power on their part in terms of their exclusive possession of a special attribute: technical expertise and scientific knowledge; and 2) political and ideological neutrality, as a reflection of the universalistic principles of science and technical efficiency, and the best political asset of adherents to such principles. However, the available evidence suggests that it is not possible to speak, at any time during the democratic period, of a technocratic ideology proper at any point on the political spectrum.

In the following two chapters we shall suggest that this is because although the técnicos had ambiguous feelings toward the party system and professional politicians in general, given their objective situation they consciously opted for indirect political action as a means of propelling capitalist development in Brazil in the direction they desired. Our hypothesis is that the material conditions for the emergence of the 'economist-king' only came into existence after authoritarian rule was established. In other words, the process of depoliticization of Brazilian society had to run its course before the technocrat could emerge as a full fledged political actor.

The second problem which arises is directly related to the first. It concerns the role and function of the técnicos estruturalistas in the Brazilian political system - insofar as they belonged to a semi-organized school of thought - as producers of ideology. Here we use the term 'ideology' in the sense understood by the relevant técnicos, that of an articulated system of propositions and values serving as a foundation for the interpretation and transformation of reality.

Two theses are now firmly established in the relevant literature on post-war Brazil. The first is that the técnicos in general enjoyed relative autonomy from the legislature, which was generally co-opted by the executive

as far as economic decision-making was concerned.¹ The second is that the técnicos, as an important section of an otherwise vaguely defined 'elitist political system', had widespread political influence in the formation of opinion in the elite of which they were a part.² However, the fact that a representative group of this sector could organize itself in a politically oriented group ideologically antagonistic to its opposite number within the state apparatus, and parallel to the party system, has hitherto been unduly neglected. Neglect of this development is all the more striking in view of the hegemonic role played by nacional-desenvolvimentismo during the 1950s, and its gathering cohesive power as an ideology during the Kubitschek years, at the very time when the present pattern of association between the state and foreign and national private capital was taking shape.

Emphasis is given here to the técnicos estruturalistas not simply because they exercised considerable intellectual influence upon policy makers and professional politicians. This is not unfamiliar in Latin American countries. Our contention is rather that this concerns a more typically Brazilian phenomenon, still to be accounted for. In Brazil no ideology-producing 'locus' of comparative gravitational force could be found elsewhere in the political system; certainly, none was to be found within the existing parties, among which the PTB might have been the most congenial for técnicos committed to economic and social reform.

It is a commonplace of the relevant literature that the low degree of representativeness of the Brazilian party system manifested itself directly in the absence of competing ideological systems across the political spectrum.

-
1. See Nathaniel Leff, Economic Policy-Making and Development in Brazil, 1947-64. London, (John Wiley & Sons, 1968); L. Martins, Pouvoir et Développement, Maria Victoria Benevides, O Governo Kubitschek - Desenvolvimento Econômico e Estabilidade Política, São Paulo, (Brasiliense, 1976), and Celso Lafer, "The Planning Process and the Political System in Brazil - A Study of Kubitschek's Target Plan, 1956-61" (Ph.D., Cornell University, 1970).
 2. Leff, Economic Policy-Making and Development; Thomas Skidmore, Politics in Brazil (Oxford University Press, New York 1969).

The sole exception was the Communist Party (PCB) outlawed during most of the period. However, the association of lack of representativeness with lack of ideology has hitherto been discussed in relation only to social classes or at best to economic interest groups.¹ The empirical evidence provided in the following two chapters suggests that the same question might be approached from another standpoint. It is not suggested that effective ideologies did not exist. A relevant problem for consideration, therefore, is the historical process of displacement by which the most effective ideologies - desenvolvimentismo and economic liberalism - were best articulated and systematically transmitted by professionals who held key offices in the state apparatus, rather than being first crystallized in their locus classicus, the political parties.

This is not to say that the ideological pull given by nacional-desenvolvimentismo to the project of accelerated economic growth throughout the 1950s was initiated by the técnicos. The truth was more complex. We seek here only to discover why the best representatives of the structuralist school came to play an active and deliberate part in providing a scientific framework and policy guidelines for those engaged in the debate over the viability of a national development project. Some structural explanation should be sought for the fact that ECLA's doctrine filled an 'ideological vacuum' in Brazil. In connection with this we will try to show that a national development project was defined and defeated before Kubitschek's accession to power.

The problems outlined have led us to focus on the ideological realm proper, and at the same time to look for some tentative answers by examining at length the place and function of the 'structuralists' in the Brazilian political system. In order to assess the self-appointed role of these técnicos as producers of ideology, account should be taken of the lack of autonomy

1. For a critical review of academic and journalistic opinion on the Brazilian party system, see Maria do Carmo Campello de Souza, Estado e Partidos Políticos no Brasil, 1930-1964. São Paulo, (Alfa Omega, 1976).

vis-a-vis the state of the party system created by Vargas, its low degree of representativeness, and, more especially, the corporatist structure into which the trade union movement was locked.¹ In the words of the chief representative of the structuralist school, Celso Furtado, the political system was "narrowly constrained between elitism and clientelism."

It is against this background that the phenomenon of the técnico as a producer of ideology becomes intelligible. It was in the name of a superior rationality that he rejected a purely technocratic approach to the process of economic policy making, and at the same time objected to the prevailing rules of 'conventional politics'. A description of the attitudes of some of the técnicos toward the party system and professional politicians, and an account of their chosen patterns of indirect political action, will help to clarify their ambivalent orientations.

Our examination of the economic ideology of the técnicos in its political context generates analytical implications relating to the current debate on the non-economic determinants of bureaucratic authoritarianism in Latin America. In particular, our analysis of the place and function of the técnicos estruturalistas in the Brazilian political system suggests a number of qualifications to the hypotheses recently advanced by Hirschman on this subject.² Hirschman's anti-economicism is that of a political economist, and is reflected in three associated theses. His point of departure is that Latin American policy makers committed to economic and social reforms have behaved as if assuming "the invulnerability of the economy ... in more or less conscious disregard of ... economic constraints". Among the constraints to which they refuse to defer, soaring price inflation and acute BOP imbalances stand out as the most recurrent and protracted. In contrast, the effective management

1. Campello de Souza, Estado e Partidos Politicos, op.cit. pp. 63-139.

2. Albert Hirschman, "The Turn to Authoritarianism in Latin America and the Search for its Economic Determinants", in Collier (ed.) The New Authoritarianism in Latin America, Princeton, (Princeton University Press, 1979), pp. 61-98.

of these problems and the ensuing resumption of growth provided a powerful source of legitimacy for authoritarian regimes, and favoured the unconstrained rule of the 'economist-king'. This thesis will be discussed at length in the second part of this work, specially in chapters IV and V. and VII.

The questions at issue here are the related hypotheses concerning the role of the intellectual elite in the political events leading to bureaucratic authoritarianism. Hirschman suggests that the ECLA approach to problem-solving contributed to a process whereby those groups whose vital interests were at stake under popular governments resorted to force and violence to defend them, because as accelerated growth slowed to a halt ECLA's best representatives turned from non-antagonistic tasks such as planning and industrialization to antagonistic ones such as income redistribution, agrarian reform, and radical nationalism. This focus on the 'hidden causes' of surface disequilibria, a permanent trait of ECLA theory, led to an 'overdose of problems' and to a self-defeating method of problem-solving, in which new and escalating difficulties were created before immediate and less conflictive problems were resolved.

Hirschman seeks the link between the ideological realm and the 'real' structural factors in the performance of two complementary functions which should succeed each other in accordance with the fluctuations of economic activity if capitalist growth is to proceed smoothly in a democratic framework. These are the entrepreneurial function proper, performed during the expansive phase of the economic cycle, and the subsequent reform function, aimed at redressing social and economic inequalities aggravated during the previous burst of capital accumulation. The question of which social actors carry out these functions becomes a key explanation for the drastic regime change undergone by the countries concerned. According to Hirschman, in these countries the same sectors of the intellectual elite who had provided the ideological backing for accelerated growth suddenly changed camps, converting themselves from advocates of entrepreneurial reforms into carriers of the reform function. By so doing, they deprived the entrepreneurial elite of

the social support and political legitimacy which was the basis for political compromise and persuasion.

Thus Hirschman suggests that 1) there is a sharp discontinuity between pre-1964 and post-1964 policy approaches in Brazil to internal and external disequilibria; 2) the pessimistic attitudes of structuralists in the period to the prospects for growth led to the abandonment of the incrementalist approach to the economic management of disequilibria, and 3) the political instability created by 'reform from above' was reinforced by the abrupt defection of this sector of the intellectual elite from the entrepreneurial to the reform camp.

In the following chapters we assemble evidence against which Hirschman's propositions may be re-assessed. We have followed him, however, in the most suggestive part of his approach: his emphasis upon the 'realm of ideology' and the search for meaningful links between the latter and the structural factors making for a transition to bureaucratic authoritarianism. We should draw attention, in this light, to a striking contrast between structuralists in Brazil and Chile, which endured throughout the 1950s and early 1960s. Brazilian structuralists were invariably linked to the government, while their Chilean counterparts took sides with the opposition, in view of the difficulties experienced by the Chilean economy, and the succession of contradictory stabilization policies applied. Hence the greater pessimism of the Chilean literature of the time. Not until after the breakdown of the democratic regime in Brazil would fully fledged stagnationist and under-consumptionist theses gain prominence there.¹

The significance of the special place and function of the structuralists in the Brazilian political system is two-fold. Their condition as insiders helps to explain their awareness of the political compromises which are

1. See Hirschman, "Inflation in Chile", in Journeys Towards Progress New York, (Norton, 1973), and compare Anibal Pinto, Chile: Un Caso de Desarrollo Frustrado, Santiago, (Universitaria, 3rd edition, 1973) with Celso Furtado, "Industrialización e Inflación - Análisis del Desarrollo Reciente del Brasil", in Desarrollo y Subdesarrollo Buenos Aires, (Eudeba, 1973), pp. 213-246.

inseparable from the exercise of power. In particular, as we shall see, the dramatic events of 1953-4 suggested the inviability of a national project of development, and kept within bounds the structuralists' bent for radical reform. And secondly, it may have some bearing upon their adoption of an incrementalist approach to the management of acute disequilibria in 1963. The latter point will be explored in the later chapters of this work.

In addition, a closer examination of the two major blocs into which the técnicos desenvolvimentistas divided will allow a reassessment of other theses put forward by Hirschman with regard to the process of policy formation in the late 1950s and early 1960s. We shall seek to demonstrate that one cannot talk of a radical discontinuity between pre-1964 and post-1964 policy makers. As we shall show, the chief proponents of the stabilization plans of 1959, 1963, and 1965 (respectively Roberto Campos and Lucas Lopes, Furtado, and Campos again) had previously opposed the neo-liberals and favoured the deepening of state intervention to further capitalist development in Brazil. The political issue which divided the técnicos into two camps in the 1950s was the question of the scope and the purpose of state interventionism: who the beneficiaries were to be, and what the implications were for the extension of democracy in Brazil, and the mode of the country's insertion into the international economic system. For reasons that will become apparent, therefore, we shall find it necessary to distinguish between técnicos nacionalistas and técnicos cosmopolitas within the developmentalist camp, following Jaguaribe's classification of other political actors.¹ When this distinction is made, we shall be better placed to assess Hirschman's hypothesis of a change of camps by the same sector of the ruling intellectual elite. A major finding of the reconstruction of the different sets of alliances into which the two subsets of técnicos were inserted is that one cannot legitimately speak of a single group. We observe two types of political actors from the early 1950s on, inserted into different

1. Helio Jaguaribe, Desenvolvimento Econômico e Desenvolvimento Político Rio de Janeiro, (Fondo de Cultura, 1962), pp. 195-210).

parts of the political system, and openly acting as carriers of competing economic ideologies. Our contention will be that their ideological common ground in étatisme and the circumstances of intensive industrialization under Kubitschek temporarily obscured their divergent political stances. The latter should be documented, therefore, before we return to the search for the economic and the non-economic determinants of bureaucratic authoritarianism in Brazil.

However, if as we shall argue the relative positions of these técnicos differentiated in the early 1950s, it becomes necessary to account for the relative convergence observable in the 'years of confidence' between 1956 and 1960. We shall seek to avoid the risk of ascribing too great a cohesive power to the nacional-desenvolvimentista ideology by analysing the 'real' process which lay behind it. We shall ascribe the convergence among the técnicos to their participation in the implementation of a development project and to the enlargement and partial rationalization of the state sector under Kubitschek. We shall show that the administrative reforms undertaken made possible a renewed concentration of technical expertise in newly created state agencies strategic to economic management, and argue that these agencies remained comparatively well insulated from direct pressures from the party system, and thus allowed the técnicos increased leverage over the process of policy formation.

This approach to the tasks which favoured a degree of unity between cosmopolitas and nacionalistas requires a discussion of some of the relevant concepts. We refer in the first place to our use of the concept of 'reform function'. Both Hirschman and O'Connor suggest that if capitalist development is to proceed within a democratic framework, the two functions necessary to the process, the 'entrepreneurial' function (called by O'Connor the 'accumulation' function) and the 'reform' function should be performed alternately.¹ The

1. See Hirschman, "The Turn to Authoritarianism", pp. 87-97.

latter, they affirm, is limited to redistribution, a task made necessary by functional and regional inequalities aggravated during the burst of capital accumulation. These tasks are normally prompted by demands from sectors 'left behind' in the period of growth, put forward as a rule only when growth has slowed.

In the light of the Brazilian experience, however, this formulation may be misleading. In the first place, the entrepreneurial function has often been combined with institutional reforms, if not preceded by them; however, they have not been aimed at redistribution in the sense meant by the above-mentioned authors. This was true, for example, with the administrative reform which inaugurated the 'parallel administration' under Kubitschek. In the second place, the técnicos may actually agree on the need for certain reforms - as they did in fact - in order to achieve an improvement in the performance of the entrepreneurial function, whether by the state or by private enterprise. An example here would be the tax, administrative and financial reforms which should pave the way for a more efficient mobilization of human and financial resources to promote economic development recommended in 1959, 1961, 1963 and 1965. Thus técnicos with differing political positions could appropriately be designated 'reformers' to an equal degree. Furthermore, insofar as such reforms necessarily entail the redistribution of both real resources and of political power (hence control of new resources), their implementation may give rise to conflicts between and within sectors. Policy makers would be 'reformers' to the extent that their 'technical' advice endorsed measures which went against or neutralized vested interests.

It seems more appropriate historically, in the case of Brazil, to make a distinction between two kinds of reform function, depending upon the aim involved. On the one hand would be the reform function proper, intended to promote the more efficient performance of the entrepreneurial function; for reasons to be discussed later, the two may or may not be performed simultaneously. On the other, there would be a 'redistributive function', performed in favour

of the popular sectors left behind during the period of accelerated growth.

In the light of this, it may be useful at this point to anticipate one of the conclusions reached in the course of our analysis. Even reforms carried out as a complement to entrepreneurial functions may be aimed at redistribution which involves a transfer of real and political resources between sectors of the elite. Thus their effective implementation, considered a technical necessity by the relevant actors, produces what we call a 'dislodgement effect'. In other words, sectors of the entrepreneurial elite, whether state or private enterprise, who have held power in the economic decision-making process are also gradually left behind in relation to the major beneficiaries of accelerated growth, the newly emerging state or private entrepreneurial groups.

This process seems to have occurred during the 'years of confidence', paradoxically with great intensity and a minimum of conflict, across a number of sectors. Those left behind included traditional exporters in agriculture, and in industry the agents of import-substituting industrialization of non-durables.

In addition, the ad hoc creation of a modern system of policy making agencies such as the Executive Groups of 1956, parallel to and above the traditional agencies of official economic management, definitively dislodged whole sectors of the traditional bureaucracy from the decision-making system. The process, however, did not prevent the recruitment of the technical staff of these sectors of the bureaucracy on an individual basis into the new decision-making areas. On the contrary, it appears to have been a common practice. The point we wish to stress is simply that an institutional reform which permits the concentration of technical expertise within key agencies creates a dislodgement effect which affects both individuals and institutions to varying degrees.

We might therefore develop further Hirschman's analysis of the socio-political dimension of fast economic growth, as a mechanism for achieving or maintaining the hegemony of the political actors and/or social sectors which

most benefit from it.

According to Hirschman, it is a paradox requiring explanation that tolerance for income equality is greater, and hence the likelihood of redistributive reforms less, during periods of intensive capital accumulation, exactly when inequality tends to be aggravated. The explanation advanced is that accelerated growth produces a 'tunnel effect' and a 'communication effect' which exert a cohesive influence over society and legitimize the hegemonic groups. The "persuasive communication effect" which permeates all the sectors of society left behind generates expectations, confirmed materially by the expansion of the economy, of sharing increasingly in the benefits of development in due course.

It would also be possible to conjecture that tolerance for dislodgement is greater (i.e. less adjusted to the scope and intensity of the effect) when the economy is showing an upward trend, and that at the other extreme of the socio-economic spectrum, opposition to the reforms in progress is much weaker. The impact of the dislodgement effect would be attenuated by the possibility of effectively accommodating the interests of the sectors affected, and reducing their opposition to measures taken to ensure the achievement of hegemony by the newly emerging interests. In short, it seems reasonable to assume that traditional ruling elites have greater tolerance for dislodgement and less propensity to oppose some entrepreneurial reforms during periods of intensive growth. This may be the result of two legitimizing mechanisms: a) greater availability of real resources to meet demands from the affected sectors, without altering the overall orientation given to the modernization process, and b) the possibility of integrating the representatives of the sectors thus left behind by leading them to channel their economic, political, and/or technical resources either into areas defined as priorities or into new decision-making areas.

Paraphrasing Hirschman, then, it is possible to speak of a "changing tolerance for dislodgement", depending on the specific fluctuations to which

capitalism in developing countries is subjected.

In the case of the técnicos nacionalistas, as we shall see, beyond the actual implementation of the allegedly non-antagonistic tasks which were part of their programme, such as industrialization and (to an extent) planning, the satisfaction of other demands may have contributed to achieving the same effect during the 'years of confidence'.

2. The political context: the relevant issues

A reconstruction of the political context must take account of the nature of the party system created by Vargas, and the changing characteristics of Brazilian nationalism from the 1930s to the 1950s. The lack of autonomy of the party system as far as decision-making regarding the economy was concerned, and the multiple presence of nationalism, determined the ways in which the relevant actors sought legitimation, and provided the justification for their preference for patterns of action which by-passed the party system.

We should make our own views on these issues clear at the start. As regards the party system, we draw on a recent version of the well established argument that the major parties of the time - the UDN, the PSD, and the PTB - were inadequately institutionalized. The study to which we refer, by Campello de Souza, goes beyond an analysis of the representative function in relation to economic interests, and attempts to account for the governing function performed by the parties, and thus their degree of integration into the key arenas where policy was formulated and carried out.¹ She argues that the party system remained precariously institutionalized during the democratic period, because it manifested a low level of control over the main issues of economic policy and, more generally, over the governmental resources available to the state, when compared to the leverage exerted directly by other actors in the state bureaucracy and the armed forces. Throughout the period the parties were unable either to prevent these actors from formulating national

1. Campello de Souza, pp. 27-57, and 105-139.

goals, or themselves to articulate effective alternative policies to meet the needs of the population.

An explanation for this low degree of institutionalization can be sought in the nature of the relationship between the party system and the state, the latter understood as "an organization of government and a mechanism for taking and implementing decisions". The prior establishment of a state structure as highly centralized as that of the Estado Novo is a decisive factor for understanding the characteristics and dynamics of the party system. The way in which the parties were structured following the downfall of the Estado Novo is of decisive importance to an understanding of their future behaviour. Firstly, the system was set up on the initiative of the central government. Secondly, the new parties emerged out of a 'circumstantial' polarization - for or against Vargas - and did not correspond to well-defined socio-economic divisions. The two poles were represented by the UDN on one side, and the PSD and the PTB on the other.¹

We may therefore seek an understanding of the function of the técnicos within the political system, and of their attitude to parties and professional politicians, in two aspects of the manner in which the parties were structured. First of all, social movements, and above all trade unions, lacked autonomy with regard to the 'workers' party' as well as to the state. The PTB was created to institutionalize populist control over organized sectors of the labour movement by keeping its militancy in support of its demands and its political scope within bounds. The forms of articulation between the union movement and the government, with the PTB as mediator, consecrated the corporatist structure inaugurated by the Estado Novo, while adapting it to the exigencies of the democratic regime.

The second characteristic of the political system which is relevant to our analysis is the patronage system. The extent to which this political

1. Sola, L. "O Golpe de 1937 e o Estado Novo", in Motta (ed.), Brasil em Perspectiva São Paulo, (DIFEL, 1968), pp. 128-155.

resource was utilized by the major parties affected the structure and function of the state bureaucracy deeply. This was reflected in the recurrence of criteria for recruitment which were alternative to and broadly competitive with that of merit. For our purposes, we need to establish to what extent the phenomenon of clientelism affected the perception the técnicos nacionalistas had of their own function in the Brazilian system. In addition, we need to assess the extent to which executive sensitivity to party interest in this area might have restricted its customary domination of the economic decision-making process, particularly when programmes of rationalization were at issue. The feedback effects of the patronage system on the administrative structure, which constitute a constraint on executive autonomy, are structural aspects of the Brazilian political system. The failure to implement an overall administrative reform in the period was due to the veto power of the relevant parties in Congress. As cost-reducing administrative reform was made impossible in conjunctures at which stabilization programmes were being implemented, the revival of the patronage system in the democratic period represented a political constraint on the curbing of government expenditure.

We turn now to the manner in which nationalism provided a dividing line between two groups of técnicos during the post-war years. Brazilian nationalism can be seen both as a national development project, and as an instrument of popular mobilization. As a national development project it emerged from a thoroughly elitist tradition represented in the 1930s by técnicos and military groups who became its principal executors and carriers. It emerged as an instrument of popular mobilization only in the post-war years, and gathered momentum during Vargas' second term of office.¹ This affected the political action of the técnicos nacionalistas. From the late 1940s on, in common with the military, they defined their positions in terms of the basic options for capitalist development in Brazil, as members of different sets of alliances.

1. See L. Martins, Pouvoir et Développement, pp. 267-273, and 309-359.

This brought them into the political company of other actors newly incorporated into the decision-making system since redemocratization: entrepreneurs and professional politicians. However, in the new situation created by redemocratization, the carriers of the national development project formed alliances which extended beyond the main decision-making areas. The alliance with the sectors effectively excluded - the popular urban sectors - appeared to the nacionalistas as an effective means of mobilizing political resources, in order to broaden the scope of Brazilian democracy.

Beyond its rhetorical or manipulative content, then, nationalism did mean new political commitments on the part of the relevant actors. In its second aspect, it reflected a change in the criteria of legitimacy regulating the actions of holders of state power, for the nacionalistas now saw these as indissociable from their self-appointed role as "spokesmen for the people". The new commitments taken up by the executive and the nationalist elite in general were reflected in the permissiveness shown by Vargas' government to the 1953 general strike in São Paulo, the subsequent 100 per cent nominal rise in the minimum wage, and the degree of redistributionism which appeared in the economic policies proposed by the técnicos nacionalistas. It was for these reasons that the nacionalistas were identified as left-wing by their opponents.

3. The role of ECLA

A direct link between the ECLA school and the técnicos nacionalistas was provided by Celso Furtado, the leading representative of the latter group, who had been a co-author of structuralist theses on economic development while a member of the technical staff of ECLA, and an adviser to Prebisch during the early years of that institution. The ECLA theses and the Prebisch manifesto of 1949 found swift acceptance among a subsector of the técnicos in Brazil, as the arguments advanced provided a scientific rationale for a nationalist tradition which was fundamentally interventionist, and for which both the theory and the macro-keynesian policies it incorporated were instrumental. In

addition, the official recognition and support given to ECLA as an institution by the Brazilian Foreign Ministry, on orders from Vargas, helped to boost the political credentials of that school of thought in Brazil.¹

However, its influence was not limited to governmentalist circles. Such was the dominance of ECLA's theoretical discourse after the Prebisch manifesto that even the neo-liberal opponents of the structuralists were obliged to defend their positions in terms which responded to the framework developed by the structuralist school, as is evident from the work of Campos, for example, or even of more orthodox economists such as Gudin and Bulhões from the early 1950s on.

To the nacionalista discourse previously available, the ECLA doctrine contributed a) the formulation of an overall analysis of the Brazilian economy as a typical historical formation, based on a theory which attempted to account for the specific nature of developing economies, among which Brazil was a particular case; b) a stress upon concrete, precise analysis of the dynamics of the economic system, aimed at elucidating its structural trends, in order to allow planning to reverse the undesirable effects of 'spontaneous development'; and c) an alternative discourse to the established explanations of liberalism on the one hand and Brazilian marxism on the other. The latter, for political reasons and on account of its theoretical poverty, could not enjoy easy currency in official circles.

1. For evidence of support from Vargas for ECLA, see the introduction to Prebisch, Hacia una Dinámica del Desarrollo, Mexico (Fondo de Cultura, 1952).

CHAPTER II

TECHNICAL KNOWLEDGE AND THE POLITICAL CONSTRAINTS TO COHERENT
ECONOMIC MANAGEMENT IN THE POST-WAR YEARS 1945-1954

1. Planning and Industrialization: the ideological matrix of the post-war controversy on the allegedly non-antagonistic tasks.

Towards the end of 1944, the role of the State in the future performance of the capitalist economy in Brazil was the subject of a debate inside official circles; this debate was known as "the controversy on Planning".

It was in the form of technical opinions and reports that for the first time the patterns of the two typical alternative positions - neo-liberalism and dirigisme - were made explicit. Both made up the ideological matrix used by the other political actors involved in the successive debates on economic policy-making up until 1956.

The main protagonists were, on the one hand, the economist Eugênio Gudin, main rapporteur to the Economic Planning Committee (CPE), an agency newly set up by Vargas and subordinated to the National Security Council; and, on the other, Roberto Simonsen, entrepreneur and historian, founder-president of the National Confederation of Industry and then the leading rapporteur to the National Industrial and Commercial Policy Board (CNPIC), set up in 1943 and directly subordinated to the Ministry of Labour, Industry and Trade.

When the first formal proposal regarding overall economic planning, drawn up by Simonsen on behalf of the CNPIC was submitted, at President Vargas' request, to the Economic Planning Committee, Gudin's negative opinion took the form of a virulent attack on dirigisme, entitled Os Novos Rumos da Política Econômica. Published soon after by its author, who was also Professor of the Economics Faculty at Rio de Janeiro University, the CPE report rapidly became a manifesto of the neo-liberal tendency.

Our interest in the controversy is limited to certain aspects which are relevant to our analysis. A rapid description of the two ideological constellations which became explicit through it, together with references to the immediate context into which it was inserted, make it possible, we believe, to clarify the following questions.

In what sense and under what circumstances can it be said that, given the uncertainty which characterized the conjuncture prevailing in the final years of the Estado Novo, such subjects as industrialization and planning, which according to Hirschman are non-antagonistic tasks, in Brazil were transformed into a source of conflict? This question only becomes meaningful if it is remembered that, in addition to the inflationary upsurge affecting the period from 1943 to 1945, the conjunctural uncertainty was reinforced by other factors of a political nature. These were growing pressure for the restoration of democracy and the prospect, open to certain sectors of the Brazilian elite, of an effective departure from the comparatively autarchic model of growth prevailing in the nineteen-thirties, owing to the recent insertion of Brazil into the system of alliances led by the USA and sanctioned by the 1942 Washington agreements. It is against this background that the associated subjects of industrialization and planning became vital issues which helped to widen the gap within each group of political actors then involved in the decision-making process: the técnicos, the military, the entrepreneurs and the professional politicians.

The controversy seems to us to have topical relevance, moreover, insofar as it suggests two other questions, related to the first. To what extent did technical and scientific knowledge, whether in the form of available economic theories or in that of the diagnoses and prescriptions presented by the Foreign Missions - respectively Cooke in 1943-44 and Abbink in 1948 - become instrumental for the mobilization of political resources by each of the groups into which the policy-makers were divided, especially the técnicos? Why is it that ECLA's theoretical discourse from the 1950's on came, so to speak, to fill an analytical

vacuum and, more especially, to give scientific legitimacy to an ideological stance and policy option which had preceded it? The discussion of the questions outlined here, in turn, will throw some light on the reasons why it was possible for a common ground to be established between the técnicos desenvolvimentistas committed to different sets of political alliances and affiliated to different theoretical traditions during the "years of confidence" (1956-60). It was only during this period, already under the auspices of the Target Plan, that industrialization and planning once again became seen as unifying tasks among the policymakers.

*

By way of introduction, it should be noted that neither Gudin's diagnosis of the Brazilian economy nor his proposals on economic policy reflected, as his opponents were to say later on, an anti-industrialist position. An analysis of the relevant texts does not give grounds for classing industrialization as such as an antagonistic task.¹ In reality, the conflict between Gudin and Simonsen concerned the direction to be given to that process; this is also apparent from the alternative proposals on industrial policy. Protectionism or laissez-faire were rationales for divergent positions regarding the basic options for capitalist development in Brazil - that is, regarding what mode of insertion to adopt for the country in the new system of international cooperation. This question in turn entailed, as we shall see, determining who should be the leading economic agents and main beneficiaries of industrialization, as well as the pace at which economic growth should proceed. It is from this view-point that industrialization became a highly politicized issue.

In his first report, Simonsen states that the main target is to quadruple the national income "in the shortest possible term" (12-15 years), in order

1. The controversy on planning comprised three reports, recently published in book form: Gudin, Eugenio and Simonsen, Roberto, A controvérsia do planejamento na economia brasileira, Rio de Janeiro, IPEA/INPES, 1978.

not only to achieve a larger internal market but also to overcome the prevailing situation of pauperism and economic backwardness. Such a target was seen as a sine qua non to avoid the imminent threat of "social unrest" and "political instability" due to the rapid spread of values and consumer habits from the advanced countries. On the other hand, the scarce resources available to the national entrepreneurs - held up as the dynamic agents of this process - and the futility of the "classic methods" for making a project of accelerated growth feasible meant that a leading role was attributed to the State. Its action was to take effect at two distinct levels: enlargement of the scope of its traditional entrepreneurial role as a privileged investor in overhead social investments, and promotion of the vertical integration of the manufacturing sector (basic inputs and capital goods industries) through the implementation of Five-Year Plans, whereby, with the help of protectionist measures and special incentives, the national entrepreneurs could be induced preferentially to take part in new sectors to be set up. The State was also expected to perform the role of major financial intermediary, in order to ensure a permanent inflow of foreign capital in the form of official loans "from Government (USA) to Government (Brazil)".

The estimate for the official loan to be granted by the US government - equivalent to 0.2% of the national income of the USA - was indeed strikingly optimistic. In fact, it assumed a political interest on the part of that country's government in financing a "revolution in the structures" which were responsible for Brazil's economic backwardness, and a consequent rise in the standard of living of the local population by means of a Marshall Plan for Brazil.¹

Simonsen's political calculation did, however, have a certain basis in reality, despite its optimism. For the proposals derived from the first-ever

1. See Luciano Martins, op.cit., pp.309-330 and Carlos Von Dollinger's introduction to Gudín & Simonsen, op.cit. pp. 5-25.

overall diagnosis of the Brazilian economy carried out under the auspices of the Cooke Mission, which came to Brazil in 1943 by direct request of Vargas to Roosevelt, matched some of the theses advocated by Simonsen since the nineteen-thirties.

The basic recommendations of the Mission were made in view of the urgent need to raise the living standard of the Brazilian population and the conviction that international trade would develop better among equally prosperous nations, and centred on the following main prescriptions: a) import substitution of essential products, such as basic inputs and equipment; b) technological modernization of Brazilian industry; and c) setting-up of institutional mechanisms whereby a permanent flow of internal savings into the industrial sector could be ensured. In this regard, the main recommendation was the creation of a "regulator" of the capital market, a role to be performed by Investment Banks.¹

These measures are taken up by Simonsen, who frequently invokes the technical authority of the Cooke Mission in order not only to propose the above-mentioned economic targets but to present them as a material pre-condition for political stability. It was necessary to eliminate "foci of misery" which were also "foci of discontent and rebellion"² According to Simonsen, a slow rate of growth would mean that "we were condemned to deep-seated social upheavals in the near future".³

-
1. The Cooke Mission's report was actually published only some years later, yet it had already circulated among técnicos and entrepreneurs who had collaborated with the Mission officially or had access to it. See Fundação Getúlio Vargas, A Missão Cooke no Brasil, Centro de Estudos de Problemas Brasileiros, Rio de Janeiro, 1948.
 2. It should be stressed that since 1933-34 Simonsen had been actively organizing statistical studies on the living standards of the population of a number of states of Brazil. In this respect, however, he seems to have been a voice in the wilderness throughout the thirties, and unheeded by his peers. Simonsen, R., Níveis de Vida e Economia Nacional São Paulo, Centro de Estudos e Ação Social, 1940.
 3. Simonsen, Alguns Aspectos da Política Econômica mais Convincente para o Brasil, São Paulo, Federação das Indústrias, 1943.

In addition to the strategic role of the Cooke Mission in bringing grist to Simonsen's mill, other episodes helped to bring to the fore the need for a "conscious" industrialization policy. The first Brazilian Economics Congress, also held in 1943, set the stage for a public debate between entrepreneurs and técnicos - for the first time independently of government control - concerning these issues. Furthermore, even before the arrival of the Cooke Mission, Vargas had, in 1942, requested that DASP technicians draw up the first in a future series of projects: the Five-Year Plan for Public Works and Re-equipment of National Defence.¹

In other words, unlike the thirties when Simonsen had been a lone voice among the entrepreneurs, his position now became, if not representative, at least a catalyst for a trend being formed both outside as well as inside official circles. His arguments in favour of overall planning of the economy - "scientific technique independent of the form of government" - were based on the same assumptions as those underlying the future theories of ECLA. That is, an emphatic critique of the limits of spontaneous development in countries such as Brazil, and of the patchy policy solutions implemented ad hoc up until then, as they were insufficient to generate the conditions for an effective take-off of the Brazilian economy; and also a belief that extended planning might be provided to promote his strategy of industrialization.

In brief, the theses of which the controversy was comprised and which entered circulation around 1944 were: a) rapid growth of the national income, whose dynamic pole was to be the industrialization process aimed at relative self-sufficiency for industry, as a means of definitively overcoming the limits imposed on growth by foreign-exchange constraint; b) expansion and diversification of the internal market as the preferred dynamic motor of economic growth;

1. This plan was not however carried out. It was a novelty in planning terms because it established a list of priorities for investments over the following five years, in the manner of a special budget. See Daland, Estratégia e Estilo de Planejamento Brasileiro, Rio de Janeiro, Ed. Lidador Ltd. 1969..

c) a concern with the social scope of capitalist development in Brazil, reflected among other things in concrete proposals for public spending on education and health programmes; and d) the recognition of the State as the privileged locus from which to give long-run direction, through planning, to the project of "revolution of the structures". The theses seem to comprise a typical syndrome: an economic policy option which, in contrast with Gudín's neo-liberalism, may be classified, for want of a better name, as desenvolvimentista

It should be stressed that the rapid circulation of this set of proposals among the elite created a favourable atmosphere for later penetration by ECLA's theses. The attraction which the ECLA discourse was to have for the policy-makers and, above all, the enormous impact the Prebisch Manifesto was to make in Brazil on the técnicos and certain entrepreneurial circles was partly due to an already existing firm tradition of policy-making, since the thirties, of an interventionist and developmentalist stamp. Moreover, it met a current political need - that of legitimating the positions of the most conscious sector of national entrepreneurs as well as of its self-appointed spokesmen since the Estado Novo, the técnicos nacionalistas. It remains to point out in what sense the diagnoses of ECLA filled a gap which until the 1950's had left the adepts of interventionism in a position of comparative technical inferiority. A first insight into this question may be provided by examining Gudín's alternative proposals.

*

At the outset, when reading the report drafted by Gudín, the attention is called, aside from the concrete proposals for economic policy, to three characteristics which say much about the terms of the discussion at the time.

The first of these is the fact that, judging by strictly technical and theoretical criteria - skill in measuring techniques, rigour in use of the basic macro-Keynesian categories, skill in handling recent economic theories (Keynes, A. Hansen, Harberler) - the document by Gudín is almost overwhelmingly superior to Simonsen's. For example, the concept of national income defended

by Simonsen as "the total consumption capacity of the population" (in accordance with the definition supplied by the Department of Statistics and Welfare at the Ministry of Labour), and the unsoundness of the statistical data supplied by the technicians of the Ministry of Labour were both subjected to withering criticism by Gudín. The abundant mutual accusations of ignorance and exhibitionism (only one expression of the personal tone taken on by the polemics) should not however obscure one harsh fact: not only were the available statistics insufficient, but the representative of the developmentalist line was ill-prepared to give adequate grounds for his positions in the terms required by modern economic doctrine.¹

It is difficult to evaluate the effects of this defect either on elite opinion in general or on the professional politicians, or even on Vargas, whose initiative, indeed, in inducing a confrontation between the two policy-making agencies was pointed to as having been motivated by doubtful intentions.² It is probable, however, that the awareness of such insufficiencies on the part of the técnicos helped to create a feeling of comparative inadequacy, especially among the economists whose orientation was similar to that of Simonsen. This situation was reinforced by factors of an institutional nature: both the Economics Faculty of the Rio de Janeiro University and the Economics Centre of Fundação Getúlio Vargas, a semi-official body where the first macro-economic statistics were produced, along with the first evaluations of the recent performance of the Brazilian economy, were controlled by the group associated with Gudín.

1. It is interesting to note that Gudín takes much more pleasure than Simonsen in making personal and/or political accusations, calling his opponent the "representative of consolidated particularistic interests". Despite Gudín's technical superiority, Simonsen's reply contains a brilliant defence of planning, which displays a broad humanistic culture and directs its critical drive above all at the question of the value of doctrines.

2. See Dollinger, op.cit. pp. 10-15.

The second characteristic of Gudin's document is the concern with the current inflationary upsurge, not focussed on by Simonsen's first report. The cost of living index, taking 1939 as 100 presented a rate of variation from 15.8% in 1943, to 36.4% in 1944; to 23.3% in 1945. He devoted most of pages of Novos Rumos da Política Econômica to diagnosing it and making associated prescriptions. Again he displayed his knowledge of modern authors such as Keynes, Hansen and Bresciani-Turroni, in order to show that the origin of Brazilian inflation - a vital economic issue - was "a monetary problem". This statement should not, however, shock a Keynesian reader, for it does not seem to be the result of Gudin's ignorance of the relevant texts. In fact, it flows rather from the analytical assumption underlying his diagnosis of the inflation then current in Brazil. This presupposition - not a very strong one in those final years of the war - can be summed up as follows. In conditions of full utilization of productive capacity in the industrial sector, and given the war-time import restrictions (reinforced by the high level of effective tariff protection), the expansionist policies implemented by the Brazilian government, such as public investment expenditure financed out of the expansion of the monetary base and the associated credit policies to the private sector, which fed non-productive investments in urban development, were the ultimate causes of soaring price inflation. From this it follows that the additional demand for consumer goods generated by the multiplier effect of new investments on employment and income could not be met by the internal availability of those goods.¹ The relevant prescriptions were: a policy geared at "the liberalization of imports (elimination of tariff restrictions on imports of consumer goods) combined with a tighter money and selective credit policy, and with drastic cuts in government investment expenditure.

1. Gudin's is not a conventional "monetarist" diagnosis. His assumption of full employment and analysis of internal disequilibrium in terms of two sectors (investment in excess of consumption, in his own terms) leads him to the conclusion that any additional investment and credit expansion might only have adverse effects.

Furthermore, Gudin's priority target - the pre-condition for raising the national income under stable conditions, although at a slower pace - was stated as rising productivity of the economy as a whole and especially of agriculture.

The attacks on the current protectionist and expansionist policies, while being grounded on a diagnosis of the inflationary conjuncture, nevertheless had a wider scope insofar as they were inseparable from the attacks on State intervention in the economy and the inefficiency of national industry, which had grown under the wings of protectionist policies.

The main objective of the CNP's rapporteur was the critique of the autarchic model of growth. Thus, the inefficiency which was characteristic of Brazilian industry (which through its most combative representative "endeavoured to perpetuate its privileges"), its low level of productivity and international competitiveness - so ran Gudin's argument - justified the idea of a long-run industrial policy, as an alternative to Simonsen's, which was designed to achieve a model of development associated with foreign capital. In this case, the role of the State was limited to a more intensive manipulation of the available instruments of economic policy, such as special exchange rate, tariff, credit and fiscal incentives, in order to attract a permanent inflow of private foreign investments, and particularly the elimination of restrictions on remittances abroad. The form of financing preferred by Gudin for carrying out industrialization in stable conditions and with the maximum economic efficiency thus presupposed some government intervention, but in the sense of restoring a competitive regime and the role of private enterprise as the leading agent of that process, with maximum competitiveness between the national and foreign sectors. It is from the viewpoint of this alternative development project that the short-run prescriptions for tackling inflation become meaningful. For, together with the usual orthodox weapons such as the above-mentioned import and credit policies, realistic pricing of public utilities and drastic cuts in government expenditure, special facilities should be introduced in order

to secure the transfer to the private sector of the State-owned enterprises set up under Vargas to produce basic inputs.

It is clear that the slogan proclaimed by Gudin - "no plan is possible without monetary order" - was characteristic of the scale of priorities typical of the monetarists when confronted with internal and external disequilibrium, and part and parcel of an alternative development project. This is clearly stated by Gudin, since for him more than diverging as to timing and nature of the anti-inflationary measures, it was important to give feasibility to an alternative model consistent with Brazil's recent integration in the then emerging international system of alliances, "consistently with the codified standards agreed on at the Bretton Woods Conference".

Thus, Gudin brushed aside as a pseudo-problem the possible strains on the balance of payments (BOP) that might ensue from the liberalization of imports, providing the conditions for a permanent inflow of foreign capital could secure a "good BOP performance", together of course with the implementation of trade policies geared to boosting exports and the modernization of the agricultural sector.

Gudin's other watchword, "increase exports to boost imports", should not obscure the fact that the pièce de résistance of his proposal went beyond the usual package of macro-Keynesian anti-inflationary policies associated with IMF liberalism. For his main target was to provide for the setting up of a favourable atmosphere for foreign capital, seen as partner in the industrialization process itself.

The main economic policy guidelines put forward by Gudin were:

a) the immediate reversal of the inflationary trend; b) a leading role for Brazil among exporters of raw materials in defining trade policies with the aim of defending the prices of their products before the competent international bodies; c) the creation of favourable conditions for wide-ranging penetration by foreign capital.

These guidelines make a sharp contrast with those defended by Simonsen

in his later reply to Gudín's attacks;¹ a) "it is not a question of stability" - rather, the vital issue should be "the economic restructuring of the country" following an emergency economic policy such as the Marshall Plan; b) the fight against pauperism; c) quadrupling of the national income, a goal to be achieved through Five-Year Plans. In short, the "development of the country's productive forces" with a view to achieving substantive "economic democracy" would be the material pre-condition for making feasible and consolidating the project of democratisation.

In short the two proposals show a typical pattern in which there is a confrontation between politically divergent orientations concerning the desired model of development and its leading agents, and divergent attitudes as to the pace of economic growth and tolerance towards inflation. It should be noticed however, that in his reply Simonsen, unlike Gudín, does not seem to have either an alternative diagnosis of Brazilian inflation or weapons to fight it. His comments on the latter issue are vague. They are limited to a definition of his stance, mentioned above, as based on the lower priority attributed to stabilization. Insofar as it reflects greater permissiveness with regard to inflation, his position clearly looks forward to the structuralists' approach to the subject; yet - and this is what matters for our purposes - he did not have the analytical instruments to give grounds to his arguments.

Finally, as an additional symptom of the politically charged atmosphere enveloping the debate on industrialization and planning at that time, the attacks by Gudín on the prevailing autarchic model were not limited to economic arguments taken from the neo-liberal arsenal. The enumeration of the State's handicaps as an investor and the evaluation of the effects of protectionism are inseparable from Gudín's main political goal - a critique on the system of alliances which had been the bulwark of the Estado Novo. His attacks were aimed specifically at the "vested interests" which acted in an articulated fashion under the

1. See, A Controvérsia do Planejamento, op.cit., pp. 110-150.

paternalistic aegis of the authoritarian and corporative State, and whose "continuismo" Simonsen, along with the State bureaucracy, was alleged to represent.¹ Thus, the main flaw of public enterprises was held to be "political" rather than "sound economic management", and this characteristic in turn was seen as inseparable from the patronage system, the enemy of the desired maximization of economic efficiency. By the same token, the elimination of the crucial element of risk, the basis for rational calculations under free competition, was seen as in the interest both of the national entrepreneurs and of the State bureaucracy, as it permitted the "dilution of responsibility" and the socialization of the economic penalties which otherwise (under adverse conditions) private enterprise should have to pay.

Last, and most important, the banner of economic liberalism was given a politically progressive ring insofar as it became confused with the "question of democracy". Gudin's association of planning with Communist and Nazi totalitarianism - though he left Roosevelt's New Deal out of this category, only to accuse it of the sin of economic inefficiency - led Simonsen to defend planning on the basis of the historical experience of the democratic countries, where it was a "scientific technique and independent of the forms of government".

Thus, the subject of planning arose in Brazil as a highly politicized issue for a reason which is relatively easy to determine. For alongside the controversy on the basic options for capitalist development in Brazil, there was in progress another debate of an eminently political nature. In this case, the issue at stake was that of the forms of institutionalization of the democratic regime and, above all, of the State apparatuses. This was the focal point for the main political actors (entrepreneurs, técnicos, professional politicians) to organize in favour of a legally satisfactory participation in the ongoing process of redistribution of political resources.

Without doubt, this process can be described as openly conflictual

1. Incidentally, no explicit reference is made to the military.

throughout the conjuncture of political uncertainty which began in 1942-43 and ended only in 1947, under the elected government of Marshal Dutra; it was at the end of 1946, under the aegis of the newly elected Constituent Assembly, that the rules of the democratic game were codified in the new Constitution, basically liberal in nature. One of the key issues intensely discussed in the various special committees of the Assembly concerned the form and functions of the State apparatuses, among them the policy-making agencies. Their scope of action, whether they were deliberative and/or executive in nature (rather than merely the interests they should represent) - in short, the array of powers to be given to the future decision-making bodies - were the subject of disputes, trade-offs and negotiations between the various parties and representatives of professional associations and unions. It was owing to this specific conjuncture of political uncertainty that planning proposals, even piecemeal ones, took the form of conflictual tasks. Gudin's position in the controversy in question here is paradigmatic, for it brings together in a special blend the elements of a typical ideological constellation; the matrix from which the political sectors dislodged in the thirties and reorganized in the opposition party (the UDN) from 1944 on derived their proposals on economic policy. The debates which pertain to the history of this period thus take on an extra dimension. For, in the guise of an apparently circumstantial polarization - pro- or anti-Vargas - they lined up respectively the insiders versus those dislodged from the decision-making system set up in the thirties.

This can be illustrated by the episode of the debate on the powers to be conferred on the National Economic Council which took place within the parliamentary committee specially set up to decide on this issue by the Constituent Assembly. The UDN rapporteur, Herbert Levy, (UDN) reproduced Gudin's arguments practically word for word, saying that "any planning agency" endowed with both deliberative and executive capacities would be subject from birth to a dual flaw: that of authoritarianism, and the inevitable tendency

to reproduce the economic inefficiency which had been characteristic of the New Deal.¹ The final upshot was the creation of a National Economic Council almost without any effective power.

In short, there are sufficient reasons to confirm our hypothesis that the twofold task of industrialization and planning such as it arose in the mid-forties did become a highly politicized issue. In this sense, the controversy in question is a topical one, for it brought to the fore two competing models of economic development for Brazil: Simonsen's, moderately autarchic, and Gudin's, part and parcel of the traditional trends on international trade and "associated" as regards the pattern of industrialization. Moreover, it took place in a context where the discussion on State intervention in the economy became inseparable from the more objective process of redistribution of political resources, in which the political actors took up positions in accordance with their degree of opposition or commitment to the previous politico-institutional structure introduced by the authoritarian State.

From this point of view, it is legitimate to say that the radical disagreements typified in the main protagonists' proposals concerning the long-term direction to be given to the process of capitalist development turned industrialization into a conflictual subject: it catalyzed antagonism which was prolonged until the Kubitschek period, when the model of associated development was definitely adopted (although not in the form desired by Gudin). Thus, the historical trend in question is the opposite of what happened in the thirties, when industrialization became an "ideological category", not only a unifying task for those directly involved in the decision-making process but also as a claim put forward by progressive political movements, such as the multi-class Aliança Nacional Libertadora.² It was also the opposite trend to what happened later on, in the late fifties, when nacional-desenvolvimentismo provided the ideological drive for the great leap forward in the industrialization process undertaken under the aegis of the Target Plan.

1. My thanks to Sonia Dreibe, whose research work on the period was made partially available to us.

2. See my own article, "O golpe de 1937 e o Estado Novo", op.cit. pp. 128-155.

2. Technical knowledge and experience in the post-war years

The period covering the years between the election of Marshal Dutra (1945) until the end of the Vargas government (1954), unlike those which immediately preceded and followed it, has not been the object of systematic historical research. The available literature does provide general accounts and economic interpretations, a number of case studies on the decision-making processes which led to the setting up of policy-making agencies with relevance for the period and, finally, a study in economic history whose analysis focusses on the interrelations between industrialization, the foreign sector and inflation throughout the forties and up to 1952.¹

Despite this handicap, it seems possible to establish a certain degree of continuity between the two sub-periods, respectively those of Dutra's and Vargas government. Support for this position can be found in the supplementary empirical evidence exemplified above all by the first ever all-round diagnoses of the Brazilian economy carried out by the Foreign Missions and published as the Abbink Report (1949) and the final report of the Brazil-USA Joint Commission (1953), as well as in some of the reactions they triggered off.² Despite the

-
1.
 - a. Among the general economic interpretations, the most important is Furtado, C., Formação Econômica do Brasil, São Paulo, Editora Nacional, 1967.
 - b. General account of this period may be found in Skidmore, Politics in Brazil, New York, Oxford University Press, 1969.
 - c. Case studies on the decision-making process which led to the creation of the National Development Bank and Petrobrás can be found in Martins, L., op.cit., pp. 309-333 and 359-407.
 - d. Malan, P., Bonelli, R., Abreu, M.P., Carvalho Pereira, Política Econômica Externa e Industrialização no Brasil, Rio de Janeiro, 1939-52, IPEA/INPES, 1977., pp. 37-86 and 142-194, pp. 265-407.
 2. It is beyond the scope of this study to account for the process by which the various political sectors and economic groups were organized around the alternative development projects. Here again, I was able to check my hypothesis thanks to Sonia Dreibe, whose research work focusses on the formation of State apparatuses and policy-making agencies from 1930 to 1954.

radical differences which can be attributed to the Dutra and Vargas governments as regards policy options and styles of problem-solving, the continuity referred to above can be demonstrated by means of an analytical leitmotiv of relevance for our purposes. We shall try below to trace the paths along which technical knowledge and expertise was gradually accumulated by the actors involved.¹

In this respect, both the initial years of the Dutra government (1945-47) and those of Vargas's second term (1950-53) seem crucial. They may be approached as experiments in economic policy-making through which some of the policy solutions whose ideological matrix was described above were tried out one after the other. Both experiments were discontinued thanks to the emergence of economic as well as political constraints, the most important of which we will indicate below.

Some preliminary remarks should be made at this point. First, it is worth noting the contrast between the initial policy solutions under Dutra's administration, on the one hand, and on the other the choices made during the early years under Vargas. Between 1945 and 1947, indeed, it seems that the prevailing project was the one Gudin had put forward and which in many respects, especially as regards stabilization policies, came to be validated by the findings of the Abbink Mission (1947-49). However, the continuity and effectiveness of the neo-liberal experiment were soon held in check, owing to the policies adopted in response to BOP developments. This switch represented a turning point in a twofold sense: on the one hand, the economic and political non-viability of certain conventional policies - for instance, exchange-rate depreciation as a device to cope with the vicissitudes of the country's import capacity - became increasingly evident to policy-makers; on the other, there was a change of direction both in economic policy and in the definition of the rules (and scope) of the democratic game.

1. My thanks to Eduardo Kugelmas for his suggestions on this specific point.

By contrast, the initial "nationalist" project undertaken by Vargas gathered momentum between 1950 and 1953. It provided for intensive industrialization along lines approximately similar to Simonsen's proposals, both as regards the scope of State intervention in the economy and the extent and form of participation of foreign capital. The definition of this project was largely produced by the técnicos directly subordinated to the President as economic advisors. Some of them had had permanent connections with the CNI during the last years of the Dutra government when, invited by Simonsen, they had been members of the Confederation's Economics Department. Examples are Rômulo de Almeida and Jesus Soares Pereira, whose appearance on the political scene dates from the Estado Novo.¹

It is important to stress that the definition of Vargas's intensive industrialization project was produced at the very moment the Brazil-USA Joint Commission set to work on its diagnosis of the Brazilian economy (1951-52) and the relevant prescriptions, following a very different set of policy guidelines from those orienting the Abbink report of 1949. However, as we shall see, the feasibility of the "nationalist" project, as well as the continuation of cooperation between the Brazilian and US governments through the Joint Commission, was affected by the political developments which followed the foreign-exchange crisis of 1952-53. Vargas's switch to a more radical brand of nationalism under the spur of an imminent foreign-exchange crisis brought to a halt the scheme of cooperation whereby mediation by official institutions such as Eximbank and BIRD could proceed under the auspices of both the Brazilian and US Governments.² Nevertheless, the work of the Brazil-USA Commission was to have far-reaching implications, both analytical and political, and we shall attempt to point them out.

The two experiments we are concerned with become meaningful when set against

1. We will deal at some length with the connections between técnicos nacionalistas and the CNI in the next chapter.

2. See Skidmore, op.cit, pp. 81-141.

the changing attitudes and priorities of the US government concerning Brazil following the arrival of the Cooke Mission (1942) and up to the end of the Korean War. These will be spelled out in relation to the changing expectations on the part of the US as to the functions to be performed by each of the Foreign Missions.¹

In short, the ten-year period which followed the end of the Second World War will be approached here as a decisive one in shaping the experience acquired by the técnicos of the workings of the economic and political system. The problems facing the neo-liberal project sponsored by Dutra and Vargas's nationalist project, increasingly obvious to policy-makers, helped to highlight the most crucial political and economic constraints to further capitalist growth in the directions initially desired. Both experiments may be seen as "blessings in disguise", from the standpoint of Kubitschek's selection of an economic and political strategy which was the pre-condition for the implementation of a project of intensive industrialization within a "democratic" framework.

It is our view, therefore, that the years of Dutra's and Vargas's governments led to an intense accumulation of technical and political experience. This consisted of a greater awareness, on the part of the técnicos and policy-makers of the factors which constrained coherent economic management such as it was conceived by the neo-liberals (Dutra's government) or the nacionalistas (Vargas'). Such constraints to economic policy-making were imposed both by the rules of the "democratic" game as they operated in Brazil and by the changing priorities of the USA with regard to Latin America. Such circumstances, it seems, set the stage for an increasing awareness among técnicos of both groups (cosmopolitas and nacionalistas) that technically feasible and even ideologically desirable solutions might prove politically unviable. Perhaps this explains the supposedly pragmatic Brazilian style of problem-solving throughout the late fifties, which

1. Malan, Bonelli et al., op.cit, pp. 47-86 and Luciano Martins, op.cit. pp. 309-359.

Hirschman somewhere contrasts with the Chilean style.

The following is an attempt to indicate the relevant episodes and key issues which can lead to an understanding of a rather paradoxical development: the persistence of the political gap separating groups of técnicos, reflected not only by the choice of alternative economic doctrines but also by their search for alternative sets of alliances with other political actors - while, at the same time, the accumulation of technical and political experience established some common ground between them (in relation to other political actors).

2.1 The Dutra's years: 1945-50.

As already mentioned, the Dutra government can be divided into two sub-periods as regards economic policy options and the definition of the scope to be given to the democratic regime.

Throughout 1945-47, the ascending influence of the political sectors which advocated economic liberalism was revealed by the liberalization of imports made possible by the sizeable foreign exchange reserves accumulated during the war, the lifting of direct wartime controls and particularly the dismantling of the State apparatuses in charge of enforcing them.¹ These liberal-constitutionalist sectors also took the upper hand in the intense debates in the Constituent Assembly: this can be seen from the final provisions of the 1946 Constitution which enshrined the principles of *laissez-faire*, and especially - as compared to the provisions of the 1937 Constitution - a far more liberal treatment of movements of foreign capital. It should be remembered that the principles of free trade and, above all, the freedom granted to capital remittances abroad were not subjected to any significant restraint in the new Constitution they had met strong opposition from the dirigistas, as well as,

1. Malan, Bonelli et al., op.cit., pp. 47-86, and Martins, op.cit., pp. 309-359.

more systematically, from the fifteen Communist members of the Constituent Assembly.

On the other hand, redemocratization, had entailed the legalization of the Communist Party (outlawed under Vargas) and, as early as 1945 it had emerged as the strongest in Latin America. During the first two years of the Dutra government the PCB was an ascending and mass-based political force.¹ In the 1947 standby elections the PCB emerged as the fourth national party and in São Paulo, the country's most industrialized region, it came in third place, ahead of the UDN.

In mid-1947, there was a reaction on the part of the government: with the support of some sectors of the Army and the "liberal-constitutionalists", it took a number of drastic measures with the aim of restricting the free play of political forces. The main rationale, of course, was that the changes brought about by the beginning of the Cold War had converted the PCB into an internal threat to the smooth working of the new international alignments of which Brazil was part and parcel. The new course of action was made manifest in the following restrictive measures: a) suppression of the PCB as a legal party, which entailed repression of some of its militants; b) legal obligation to present an "ideological certificate" issued by Security Police for labour leaders wishing to run for trade-union elections; and c) direct intervention in the most militant unions, whose leaders were appointed by the federal government from then on. Around 1949, 143 unions were under federal intervention, with resulting cancellation of free elections to union posts.

The most obvious effect of these measures was that the PTB still under Vargas's leverage, was the party which most benefitted from the PCB's suppression. Moreover, competition for the free vote of popular sectors took a definite turn towards mass politics of a populist stamp. Above all populism as a mechanism of control over the labour movement, made possible the working of what is known as the social compact - the political bases for

See Skidmore, op.cit., pp. 109-155.

the legitimation of the democratic regime until 1961-62. The social compact is here understood as a political arrangement amongst the Executive, the Legislature and the trade-union leadership.¹

For our purposes, it should be observed that under these circumstances the stage was set for the emergence of an alternative discourse to that of the PCB ad usum of the sectors committed to nationalism and social reform. Given this political background, it seems possible to understand why, from the point of view of the younger generation of técnicos nacionalistas, ECLA's theses and language were welcomed as an asset in the ongoing debate with the cosmopolitas which was taking place inside the State apparatuses. For in addition to its superior intellectual credentials, ECLA's theoretical discourse - as one of the técnicos put it - had the tactical convenience of having "easier currency within official circles" than any radical brand of nationalism. The PCB's theses were seen as a "liability" in the political confrontations inside and outside official circles during the late nineteen-forties and the fifties.²

1. See Flynn. op.cit.

2. Interview with Furtado, 15 and 16 April 1977. This does not mean that the técnicos in question had special sympathy for the PCB. Their objections to the Party's doctrine it seems, arose from its exclusively "ideological" nature and especially its "theoretical poverty". Moreover, they stressed the difference in attitude which made it possible for "left" técnicos to account for the positive achievements and economic performance of the preceding years rather than relying on overall criticisms. However, two points should be noted. On the one hand, the structuralist group rapidly absorbed those técnicos who did have direct connections with the PCB. On the other, some of the topics developed by ECLA could easily be translated into the PCB's language and thus be used as support material by its militants when analyzing Brazil. Formation of a home market, translated as the "internalization of decisions", the role of national entrepreneurs as a progressive force, accelerated industrialization, institutional reforms of a welfare-state type -- all this could be assimilated by the PCB's language. At that time, its slogans were governed by the popular front policy; this meant a class alliance based on a degree of solidarity between the interests of the national bourgeoisie ("not associated to foreign capital"), the proletariat and the progressive middle classes. This front, in turn, was defended as a pre-condition for the struggle against the latifundia "associated with imperialism".

As to the direction given to economic policy, the measures taken by Dutra, such as liberalization of imports, credit restriction and some restraint on government expenditure, were determined by his primary concern with curbing inflation.¹ They were also a response, however, to the changing expectations and priorities of the US government as to Brazil's economic role in international alignments. This can be seen from the different sets of guidelines and recommendations laid down by the US government for the Abbink Mission (1948-49) as compared to its predecessor, the Cooke Mission.¹ During the early forties, substitutive industrialization through the setting up of manufacturing industries to produce goods which could not be satisfactorily provided by international trade - fuels, basic inputs and equipment - was explicitly recommended by the Cooke Mission: these were alleged to be priority tasks through which Brazil was expected to contribute to the war effort. By contrast, the Abbink Mission, which arrived in September 1948 following the 1947 Dutra-Truman talks, was oriented differently, as shown by the strictly confidential instructions issued to the Mission by the US government. Interest in Brazilian industrialization had given way to a concern with returning to the norms of free trade and monetary stability and, more especially, with securing favourable conditions for private American investment. In this regard, as already pointed out by Malan et al., the USA seem not so much to have been indifferent to Brazilian industrialization as to have striven to avoid "any official commitment to financing Brazilian development". It was preferred that the latter should proceed through the intensive mobilization of internal resources, combined with stimulation of a free flow of private North American

1. See Malan, Bonelli et al, op.cit pp. 154-164 and 352-372.

2. The following draws heavily on the information supplied by Malan, P. et al., op.cit. pp. 47-59.

capital.¹ We shall return to this point when discussing the Abbink Report of 1949.

Meanwhile, it is worth highlighting the fact that when the Mission arrived in Brazil (September 1948), the switch to less conventional policies which were to prevail during the second sub-period of the Dutra government had already taken place. By 1947, foreign-exchange reserves had been brought down to almost zero from its 1945 level of \$708mill. Dutra was confronted with two possible options: devaluation or the introduction of import controls. Although the policy-makers' refusal to choose depreciation was motivated by the short-term aim of avoiding further price rises on the domestic front, even so this did reveal a more pragmatic attitude towards dealing with the country's declining import capacity. The exchange controls adopted consisting of a drastic system of import licensing which discriminated in favour of "essential imports" - fuels, equipment, machinery -, combined with an increasingly overvalued exchange rate (in a context which led demand for these products to remain high), were to benefit most the

-
1. The expectations and guidelines of the US government can be clearly seen from a telegram sent by the Secretary of State to the Mission leader:

"The Commission should pay particular attention to Brazil's potential economic expansion using its own internal resources to the utmost. The Commission should not devote time to the appreciation of specific projects nor analyze the desirability of obtaining outside loans. The Commission should, however, consider measures to encourage a flow of private capital into Brazil" - August 24, 1948; in Foreign Relations of the United States, (1948), vol. IX, pp. 364-366, apud Malan et al., op.cit. pp. 29.

This attitude, apart from the priority given to European reconstruction by the USA, seems also to have been determined by the intention of thwarting Brazilian expectations of massive aid from the USA, in return for Brazilian official collaboration with the war effort. As pointed out by the authors quoted (Malan, et al.), on the basis of an analysis of the memorandum on the meeting held in Washington in May 1946, the Brazilian representatives Macedo Soares and Roberto Campos held an opposing view from that adopted by the top-level US officers from the State Department and Eximbank. Soares used arguments such as stating that he was not dealing with these authorities as a "borrower from a loan agency, but as a representative of the Brazilian government to the US government" showing the political nature of the loan which Brazil had already done so much to deserve. See Foreign Relations of the United States (1946), vol. XI, apud Malan et al, pp.31. As these authors observe, the discrepancy between the expectations of the respective governments involved meant that they were in fact talking at cross-purposes. In this regard, the Abbink Mission was a reiteration of the US policy.

industrial entrepreneurs, while discriminating against the traditional export sector.¹ The outcome was the setting up of what Malan calls the "inflation-cum-overvaluation scheme" maintained and readapted in the 1950's: by means of which state intervention ensured the permanent intersectoral transfer of real resources. The most important effect of such a policy option, however, was to inaugurate a tradition which consolidated the industrial entrepreneurs' hopes of receiving privileged treatment through the manipulation of the exchange-rate policy, made possible by the increasing resort to the State's regulatory power over the exchange regime. This set the stage for the strong political opposition from those quarters every time an attempt was made to revert to a free exchange-rate market and particularly to abruptly implemented depreciations. This partly explains the well-known resistance offered by the Brazilian elite to the implementation of policies stipulated by the IMF, as we shall see manifested in 1953-1954 and in 1958.

Credit policies also became less restrictive during these years, as compared with the 1945-47 period. While the concern with rising prices prevailed among policy-makers, no effective measures were taken to expand domestic industrial capacity: according to Minister of Finance Correia de Castro in his annual report for 1946, issued in 1947, "bank credit should be organized along classical lines". By contrast, the looser credit policy implemented by the Bank of Brazil from mid-1947 onwards was coupled with special loans to several key sectors of private industry (pulp paper, and steel).

-
1. The weak opposition caused by these measures on the part of traditional exporters up to 1953 was not only due to their declining political power. Two other factors combined to more than compensate for the deterrent represented by the foreign-exchange policy: a) the abrupt rise in coffee prices on the international market after 1949, and more generally the favourable conditions enjoyed by Brazilian tradeables up to the end of the Korean boom; b) unlike in Argentina, there were material conditions (availability of land and cheap labour) and market stimuli to enable investment to be rapidly diverted away from traditional export activities to those producing raw materials and foodstuffs for the internal market.

Moreover, the growing awareness among policy-makers of the need to coordinate public expenditure - on which a consensus was eventually reached between técnicos of both camps - was reflected in the official move towards at least a certain amount of planning activity. The five-year plan known as SALTE (from the initials in Portuguese for Health, Nutrition, Transport and Energy), although limited in scope to allocation of budgetary resources and finally thwarted as it ran into financial difficulties, may be seen, - along with some other attempts at regional planning - as an aspect of the declining leverage of the advocates of conventional economic liberalism over the decision-making process. At this time, in fact, the UDN had already run into opposition.

*

The Abbink Mission, which set to work in September 1948, was a turning point in more than one sense. An official token of the changing priorities adopted by the USA towards Brazil can be seen in the emphasis on the need to finance Brazilian development by means of the mobilization and reorientation of internal resources, combined with "orthodox" recommendations regarding the means to deal with inflation and a concern with removing the remaining legal obstacles to the penetration of US capital. Thus, the role of the Foreign Mission was not limited to its purely technical function of preparing the first overall diagnosis of the structural and conjunctural features of the Brazilian economy (summed up below). There is a further - extratechnical - dimension, worth pointing out here owing to its relevance to the purposes of this study. That is, the episode of the Foreign Mission may also be seen as a crucial opportunity to understand the process of mobilization of technical and scientific knowledge as a political resource, given the persistence of the conflict within official circles as to the long-term direction to be given to the process of economic development.

In this regard, the role of the Mission seems topical in that it enables us to return to and further qualify one of the theses put forward by Martins, the author who has devoted most attention to analyzing the técnicos'

mode of insertion in the political decision-making system during the period he calls the "transition phase". On the one hand, the composition of the Brazilian delegation which took part in the proceedings of the 1948 Technical Commission, whose leading members may be classed as cosmopolitas, is good enough, grounds for agreeing with Luciano Martins on one point. That is to say, the inauguration of the cooperation and technical assistance schemes comprising experts from both countries after the war gave the técnicos an opportunity to realign in new systems of alliances with the other political actors outside (as well as inside) the national decision-making arenas. This statement does however appear partial, since it cannot in fact be applied to all the técnicos, as Luciano Martins claims, but rather to one of the groups into which they were subdivided. It also obscures the conflictive nature of the technical cooperation process between Brazil and the USA. The internal polemics within the Technical Joint Commission regarding the final contents of the Abbink Report, as well as the public reactions it triggered off on the part of the younger técnicos nacionalistas who also took part in the special sub-committees, show that Luciano Martins' statement requires reformulation.

In reality, as we shall endeavour to show, the Mission acted as a catalyst of previously defined antagonistic positions, since it set the stage for a renewed debate within official circles as to the most suitable strategy to promote economic development. It helped to widen the existing gap among the técnicos concerning the following issues: a) the compatibility between price inflation and economic development and b) the scope and form of participation of foreign capital. These circumstances revived the terms of the 1944 debate between Gudin and Simonsen, although with some significant differences. On the one hand, the nacionalista group was able to counter the theses of the Mission with an alternative, if still rudimentary, diagnosis of Brazilian inflation, based on the assumption that the basic causes of internal disequilibria were structural, and inseparable from the country's state of underdevelopment. In this respect, they came much closer to anticipating ECLA's

theses and analytical assumptions than Simonsen. Conversely, the positions taken up by the head of the Brazilian delegation to the Abbink Joint Commission, the economist Bulhões - who represented the continuation of Gudin's strand of thought -, show that, by admitting the need for State intervention in the coordination of investment policy, a more flexible view was being taken of the principles of laissez-faire, whose limitations Bulhões recognized as obvious in countries such as Brazil.

Furthermore, Martins overlooks the fact that the opening of an ECLA office in Rio in 1948 and the circulation of the Prebisch Manifesto from 1949-50 onward represented a new option for the técnicos nacionalistas. Briefly, it indicated the feasibility of an alternative scheme of international cooperation and technical assistance to the possibility offered to the cosmopolitas with the arrival of the Abbink Mission. The relevant técnicos not only benefitted intellectually and politically from this alternative system of alliances; in the fifties they set out to institutionalize it by creating opportunities to make it effective within the key policy-making agencies. The most conspicuous case was that of the National Economic Development Bank (BNDE). Although (as Martins shows) the BNDE was originally the fruit of an articulation of interests between técnicos, professional politicians and entrepreneurs who favoured a policy of opening the doors to foreign capital, the setting up of a Joint BNDE-ECLA Group on a permanent basis was to keep the leadership exercised by the founders of the BNDE within stricter bounds than would otherwise have been the case. This helped to make the BNDE a particularly intense battlefield for the two groups throughout the fifties.

An examination of the composition of the Brazilian delegation to the Abbink Mission, led by economist and university professor Bulhões, shows that the key posts were given either to neo-liberals such as Ary Torres and Alexandre Kafka, or to those of private national and foreign interests, such as Valentim Bouças. Nevertheless, it is possible to note the presence, in a number of subcommittees, of nacionalistas whose future role during the Vargas period

was decisive in defining a project of intensive industrialization in which the lion's share was granted to the national entrepreneurs. Examples include Rômulo de Almeida, who at that time was a leading member of the Economics Department of the National Confederation of Industries and two years later joined Vargas's economic advisory staff; other nacionalistas, such as Americo Cury, Americo Barbosa de Oliveira, Evaldo Correia Lima and Herculano Borges da Fonseca, took part from the early fifties onwards in a semi-formal group known as Clube dos Economistas. Their "structuralist" positions, political function and patterns of indirect political action are reconstituted in the next chapter. Despite his long-standing nationalist views Santiago Dantas, who acted as legal adviser to the Mission, is more difficult to fit in either group, since he was then a corporate lawyer.

We shall now present a summary of the relevant aspects of the Abbink Report, followed by an indication of the reactions triggered off within official circles.¹ The structural causes of the existing disequilibria pointed to by the authors of the report were the accelerated industrialization process, which had absorbed labour, raw materials and energy since the late thirties up to 1945 and the intense urbanization process which accompanied it with no corresponding increase in agricultural production. Thus, the 1941-46 surge in inflation, the difficulties of trading with the countries holding scarce foreign exchange and the inexistence of a capital market were reckoned the major factors in the explanation of structural disequilibria. These had been aggravated however, by the direction given to economic policy: inflation was said to have trebled between 1941 and 1946 owing to increasing budget deficits and indiscriminate credit expansion.

It should be stressed that the basic aim was to identify the causes of the distortions observed in the flow of internal savings away from productive to non-productive activities. (This point had been made insistently by

1. See Malan, Bonelli, et al., op.cit., 47-60 and 431-439.

Gudin in the early forties.) This situation made it increasingly difficult to find non-inflationary internal resources to finance economic development. The major causes of this were inflation which stimulated speculative investments and wartime difficulties in importing basic products which had led to a perverse effect on the direction of new investments. As much as 7.5 billion cruzeiros, out of a total savings of 12 billion (10% of the national income), had been channelled into urban development of a speculative nature, or luxury building. The fact that only 4.5 billion cruzeiros were made available for alternative investment explained the intensity of the pressure placed on the banking system by all sectors of the economy to expand loan facilities. There was said to be a chronic propensity, therefore, to finance capital expenditure out of the expansion of the monetary base.

The conditions stipulated as necessary for the restoration of price stability, some of which had been fulfilled in the early Dutra years (and supposedly explained the partial reversal of the inflationary trend), were the conventional ones: 1) a balanced government budget, to be accomplished by keeping government expenditure within strict limits, in line with revenues - the related prescription was therefore aimed at increasing tax revenues combined with the institutionalization of mechanisms to make a public debt system feasible; 2) credit restraint, together with the implementation of a system of monetary and fiscal incentives to stimulate the flow of investments towards productive sectors, particularly agriculture; 3) a less conventional recommendation was the opposition to further depreciation on the grounds that devaluation would only have an adverse effect by feeding inflation - this seemed to be based also on the pessimistic outlook for prices of Brazilian tradeables on the international market.

It should be noted that in two respects the Abbink Report shows similarities with Gudin's earlier analysis, as regards priorities and assumptions. One is the view that the necessary pre-condition to further development was the achievement of price stability, since the distortions caused by price inflation were held to be the major obstacles to economic development. Furthermore,

the basic analytical assumption underlying the analysis of inflation was full employment; additional public spending was bound to boost price increases and restrict the resources available to the private sector.

The analysis summarized above led to the following final prescriptions:

a) institutionalization of monetary and fiscal controls aimed at redirecting internal savings, an effort to increase average productivity, and the creation of favourable conditions to secure a free flow of private foreign capital. In addition, tax on income and consumer goods, improvement of methods of tax collection, the creation of a capital market and, finally, the mobilization of and control over financial resources by specialized banking institutions (investment and regional banks) stood out as the major prescriptions as to the financing of economic development under stable price conditions. Two recommendations were made for dealing with foreign-exchange constraints. First, and preferentially, resorting to methods directly under the country's control (such as the use of available currency reserves, sale of gold reserves, export drive, and a switch to internal production of previously imported goods, e.g. fuels, and restrictions on imports of non-essentials). Second, Brazil could expect only one third of the necessary financial resources to come from external savings. However, favourable conditions should be created by means of energetic steps to counteract the adverse effects of a) nationalism, such as they appeared in the ambiguous legislation concerning foreign capital (residues of the Constitution bequeathed by Vargas in 1937), despite the acknowledged improvement represented by the new 1946 Constitution; b) exchange-rate instability and c) inflation.¹

1. Although the US members of the Commission recognized the improvement introduced by the 1946 Constitution as regards legislation affecting foreign capital, they noted the necessity of eliminating the remains of the 1937 Charter, which gave a certain legal ambiguity to the formulation of that item, and thus facilitated its exploitation by the group in power, whether or not it was made up of nationalists. As early as 1945, the US ambassador in Brazil remarked that "the group entrenched in power know that they cooperated as far as possible with the USA during the war" - Berle, A., Navigating the Rapids, 1918-1971, New York, Harcourt Brace Jovanovich, 1973, p.517; apud Malan, et al. op.cit, pp. 30.

The negative reactions on the part of the younger técnicos during the drafting of the final Report, can be best evaluated by the critique published by the group in Estudos Econômicos No. 1. Incidentally, this journal was sponsored by the CNI. While it is difficult to assess the repercussions of the Abbink Report on entrepreneurial circles proper, the fact remains that the critiques published in the official journal of industrial entrepreneurs association are at least a token of the circulation they must have had within that sector of the business community.

These critiques went as follows. First, the assumption of full employment was too strong for the late forties, as it failed to account for "disguised" unemployment - i.e. "when part of the available factors contribute even less to production than their own consumption". If Abbink's assumption were true, room for manoeuvre left to policy-makers would be that pointed out in the Report, redirection of investment and a reasonable flow of foreign capital. They saw the main source of the inflationary upsurge, however, not in the additional demand pressure under conditions of full employment, but primarily in the periodic shortages "which almost always originated abroad, although internal factors have occurred to ... intensify the upward tendency". Thus, the emphasis laid on price increases in imported goods and shortages in the supply of raw materials, fuels, lubricants and equipment imported during the war, was part of an alternative explanation which, of course, also suggested the following stages to be accomplished by State-sponsored substitutive industrialization. However, they insisted that increasing budget deficits only had a bearing in that they aggravated (but had not initiated) the upward trend of internal prices; nor could autonomous wage increases be held responsible for that undesired upshot (as the Abbink report had sustained). Most important for our purpose, however, is the fact that the key criticism was aimed at the assumption that inflation and development were incompatible; on the contrary, they affirmed, it was the Abbink recommendations geared to restricting demand, particularly through a tight money policy, that would have

an adverse effect on economic development. The other dividing line between the younger técnicos and the official report was, of course, the question of freedom of movement for foreign capital. They claimed that the proposed measures did not "guarantee either an adequate allocation or a sufficient amount" for the implementation of a development programme. The haphazard contribution of foreign capital was not the desired solution. Finally, it was pointed out that the "crisis" was one of "under-development", whose structural roots had to be identified and attacked, rather than merely the symptoms.

Thus, in a far more consolidated way than Simonsen, the young técnicos were the first to offer technically qualified resistance to the penetration of the liberal credo through which, in the highly respectable form of technical assistance, the US government was attempting at that moment to influence the future direction of economic policy in Brazil.

In conclusion, it is interesting to note that the publication of A Margem de um Relatório by Bulhões, in 1950, prolonged the debate, although in a less polemical form than in 1944. Besides containing the first ever Portuguese translation of the Abbink Report, Bulhões' book consists of a great deal of comments which either reiterate the Mission's official positions or improve on the analyses carried out by Gudín. Three aspects should be mentioned here. First, the recognition by the author of the need for government intervention, through the coordination of investments, to ensure a better allocation of saving resources, "as the Report considers private economic expansion programmes insufficient". On this specific point, then, the recognition of the supplementary role of the State in promoting development may be considered a first relevant factor in bridging the gap between the two sub-groups of técnicos.¹

Nonetheless, Bulhões dealt with the touchstone of conflict between the técnicos - the extension and scope of participation of foreign capital in Brazilian economy - according to the terms defined by the Mission, but went

1. See Bulhões, O., A margem de um relatório, Edições Financeiras, 1950, Rio de Janeiro, p.17.

a little further. Thus, in addition to the suppression of the major obstacle to the entry of North American risk capital, i.e. the ambiguities of Brazilian law regarding profit remittances, two positive economic policy proposals which were not part of the Report were defended: a) the setting up of a "guarantee fund for transfer of profits of American capital invested in Brazil", to be sponsored by the two governments; b) agreements on the double-taxation issue, through which the USA would eliminate levies of income tax on profits made by American companies investing in Brazil.¹

Finally, as to the diagnosis of inflation, it was seen to be rooted in the existing disequilibrium between the capital-goods and consumer-goods sectors (disequilibrium caused by investment in excess of the availability of consumer goods, in Gudin's terms). The basic solution to this problem - not monetary in nature - was to channel profits made in the capital goods sector into new investment in the consumer goods sector. It is this diagnosis, less orthodox than that of the Abbink Mission, that explains in part the need for State intervention in the capital allocation process.

In short, around 1950 the most conflictive issues - the role and scope of the participation of foreign capital, the compatibility of inflation and development (and the associated diagnosis) - were the touchstone of the debate among the técnicos. These were the political actors who, as in the past, gradually took upon themselves the formulation of the best-articulated interpretations of the Brazilian economy and of the alternative projects of economic growth.

It is most important to observe that, as can be seen from the Proceedings of the 1949 Araxá Conference - the second time (the first had been in 1945) representatives of the "producing classes" had met, among them industrial entrepreneurs, traders, etc.-, the business community had only vague proposals to make concerning the issues mentioned above.² Although they defended the

1. Idem.

2. Thanks are due again here to Sonia Dreibe for providing access to documents on the Araxá Conference.

supplementary role of the State, and the need to defend the interests of the national entrepreneurs, there were not concrete proposals to show the existence of an articulated project of economic development. As to the other sectors of elite opinion, only one additional reaction to the Abbink report is worth noting. The magazine Diretrizes, directed by Samuel Wainer and having a reasonable circulation among entrepreneurs (in the late fifties and early sixties, Wainer owned a newspaper sympathetic to the popular-nacionalista cause), launched a vigorous attack on the conclusions of the 1948 Foreign Mission, which was dubbed the "Abbink mistake".¹

2.2 The Vargas years

To judge by the major political initiatives and the economic policies adopted, Vargas's period in power could be seen as the golden age of nationalism in Brazil. Nevertheless, it is only in the earliest years of the period that it is possible to speak of nationalism as an ascendant force in the double sense of the term proposed in the previous chapter. Just as in the 1930s, it provided the guiding lines for the definition of a national project for accelerated economic development by policy makers placed in certain key decision-making arenas, of which the most important was the President's Advisory Unit on Economic Policy (Assessoria Econômica do Presidente). At the same time nationalism acquired a new function, as an instrument of popular mobilization, through which the relevant political actors - técnicos, professional politicians, and the military - sought to articulate systems of alliances with sectors excluded from the political system of decision-making.² This second dimension

1. Diretrizes, n.d.

2. We are making use here of the analytical distinction developed by Luciano Martins, op.cit. pp.309-332. Nevertheless, our emphasis upon the status of the técnicos committed to nationalism as 'insiders', suggested in the previous chapter and explored more fully in the following chapter, reflects an assumption somewhat different to that of Martins. We assume that nationalism, as an instrument of popular or populist mobilization, was favoured by political actors located within as much as outside the political decision-making system in their search for new alliances with the popular sectors excluded from that system.

of nationalism acquires meaning only when related to the new style of "mass politics" of a populist nature inaugurated by Vargas in response to the redistribution of political resources made possible by electoral competition and by the growing political participation of the urban masses.¹

One of the most paradoxical aspects of the period is that the political inviability of Vargas's nationalist project as a project for development became clear from 1952-3 onward in spite of the manifest efficiency of nationalism in providing the ideological pull throughout subsequent years for the generation of popular campaigns and for isolated initiatives in economic policy.²

For our purposes the first three years of Vargas's presidency are the most significant. As we shall see, the initial policy of the President, after his election with the support of the PTB-PSD alliance, was to seek to conciliate the implementation of a moderately nationalist project for accelerated growth with the search for new formulas for the insertion of Brazil into the network of international co-operation capable of winning the official support of the USA for the pursuit of that project. The initiative must be understood in the context of the changes occurring in the international environment from 1949-50 onward, reflected in the changing priorities of the USA toward Brazil, and in particular in the interest shown by the government of that country in collaborating more actively than in the past upon a project for accelerated development. We shall return to this point later, recording here only that Vargas's initial policy gave rise to an agreement between the two governments

1. "Mass politics" is used in a broad sense here to signify a direct relationship between the masses and sectors of the elite, along with the growing participation of the former in the political process, given the comparative incapacity of the political and institutional system (e.g. the party system) to channel newly emerging demands adequately. In this sense the PTB, like the other parties, was nearer to the model of a "cadre party" than a true mass party. This explains, in large part, the vigour of extra-institutional movements in the period. We shall develop this point more fully in the next chapter.
2. An exploration of the political processes associated with this second dimension is beyond the scope of this thesis. Our primary concern is to give an account of the economic and political reasons for which the Vargas period can be described as one of the decline of nationalism as a national project for development. See Martins, op.cit pp. 333-347.

in December 1950, three months after the presidential elections, and before the inauguration of the new President. The agreement re-activated technical co-operation between the two countries, with the initiation of the activities of the Mixed Brazil-United States Commission. As we shall see one major outcome of the activities of this Commission was the creation of the first official investment bank, BNDE. One of the most interesting aspects of Vargas's policy and the principal object of our analysis, is the simultaneous mobilization of the técnicos nacionalistas, already grouped around the Assessoria Econômica, and the técnicos cosmopolitas who made up the greater part of the Brazilian team in the Mixed Commission.¹ In other words, the técnicos from each of the two leading groups were able to participate actively in the decision-making process, although articulated into areas of decision-making which were at least relatively specialized, if not completely compartmentalized. What is more important is that they were seeking to consolidate alliances with other political actors, in more or less clear correspondence with the alternative proposals for capitalist development in Brazil. The Assessoria Econômica consisted of a permanent team of a president and the heads of four subsections. The teams working under each head of a subsection were however made up of técnicos recruited temporarily for particular projects, and were thus changing constantly. Cleanto de Paiva Leite, the president, and Romulo de Almeida, one of the heads of a subsection, are among the best-known figures in the nationalist group, as are Jesus Soares Pereira and Inacio Rangel and Accioly Borges. These names, along with that of Celso Furtado, are found in the list of members of the Clube dos Economistas, a para-political body formed by técnicos nacionalistas. Its political and economic functions are discussed in the following chapter. The Brazilian team in the Mixed Commission, on the other hand, was led by Ari Torres and among the advisers were Valentim Bouças (Financial Adviser), Roberto Campos (Economic Adviser), and Glycon de Paiva and Lucas Lopes (Technical

1. The composition of the mixed Commission, see Malan et al, op.cit, p. 195-210.

Advisers). These names, in particular those of Lopes and Campos, re-appear in Kubitschek period as the architects of the political strategy underlying the Plano de Metas. The virtual absence of economists connected with the nationalist group in the Commission should be noted. Two of them, Americo Curi (of the Conselho Nacional de Economia) and Americo Barbosa de Oliveira, had been members of the Brazilian team which had worked with the Abbink Mission. Both, too, were members of the Clube dos Economistas. Besides the economists, Helio Jaguaribe, a lawyer and political scientist, acted as legal adviser to the Commission. He enjoyed a reputation in political and academic circles as a 'moderate nationalist'. It should be recalled that as early as the Vargas period Jaguaribe was among the organizers of the Grupo Itatiaia, the embryo of the Instituto Superior de Estudos Brasileiros (ISEB), which functioned as a para-academic institution from 1950 to 1964, and adopted an increasingly partisan position as the principal centre generating the ideology of nationalism. The Grupo Itatiaia was made up of political scientists such as Guerreiro Ramos and economists such as Evaldo Correia Lima, one of the young 'rebel' técnicos who worked with the Abbink mission; the creation of the group early in the decade is an example of the way the Brazilian 'left' was able to organize outside party political institutions, and more significantly confirms the pattern of alliances established by the nationalists, examined in further detail in the next chapter.

The U.S. team in the Mixed Commission was led by Mervin Bohan and J. Burke Knapp. Its principal economists were Philip Glassner, the head of the economic team (from the Federal Reserve Bank of New York), Reynold Carlson (consultant of IBRD, Washington), Howard Dutemple, and Morris Borneis.

Two further observations should be made regarding the composition of the Commission. 1) the group given responsibility for drafting recommendations was made up of Glassner, Roberto Campos, and Glycon de Paiva, and we assume

that they worked together on the final report of 1953 discussed below.

2) According to Rômulo de Almeida the participation of the few nationalists involved was the result of a collective discussion among the group, at which the majority took the view that some co-operation would be tactically convenient. This suggests that there was a permanent degree of conflict between the two groups.

*

In the pages which follow, we shall attempt to trace the general outline of the nationalist project, and go on to explore in more detail the circumstances relating to the activities of the Mixed Brazil-United States Commission. The difference in emphasis is justified, in our view, for two reasons. The first is that the policy initiative which culminated in the coming of the Foreign Mission of 1950-51 is indicative of the changing priorities of the United States with regard to Brazil from 1949 onward, and this allows the establishment of a contrast with the context in which the work of the Abbink Mission had proceeded.

This was shown in significant differences in the content and in the quality of the diagnosis offered by each Mission. A second and more substantial reason is that a brief analysis of the Final Report of the Mixed Commission, dated December 1953, allows a better appreciation of the complexity of the process by which the relevant actors accumulated technical and political experience. This is because although the técnicos nacionalistas viewed the work of the Commission with some suspicion, paradoxically the Report anticipated in certain crucial respects what would later be the classic structuralist approach employed as a framework for analysis by the técnicos nacionalistas between 1950 and 1961.¹

1. The classic approach is Celso Furtado, Formação Econômica op.cit., first published in Brazil 1955. More specifically, the points relating to the functionality of inflation and of exchange rate policy for the process of capital accumulation in the industrial sector and of structural diversification, whose similarity with the diagnosis of the Mixed Commission we note above, were developed most fully in "Industrialização e Inflação", in Desenvolvimento e Subdesenvolvimento, op.cit. pp. 213-246. The same article was earlier published in Brazil in the journal of the Clube dos Economistas,
 [continued over]

This emerges in the analysis made by the Commission of the complex interaction of inflation, balance of payments policy, and the process of industrialization in Brazil. By contrast, the técnicos cosmopolitas who had put their names to the final report of the Mixed Commission, as members of the Brazilian delegation, moved in the opposite direction throughout the 1950s, an analytical shift made manifest in a more conventional approach to balance of payments policy and to stabilization policy than that implicit in the diagnosis of the Commission.¹

To summarize, the Vargas period appears an extremely rich one in that it allows the reconstruction, if only in a tentative form, of the process of accumulation of technical experience as an integral part of the mobilization of resources of a political nature by actors situated in the major decision-making areas. Furthermore, this reconstruction allows us to obtain an initial insight into the reasons for which the Vargas period can be characterized in recent analyses as one of "the decline of nationalism as a project for development" at the very time when the ideology was acquiring greater efficacy as a source of popular mobilization.²

- a) Vargas's two arms: the nationalist project and the diagnosis of the Mixed Commission.

The initial project sponsored by Vargas and co-ordinated by the técnicos of the Assessoria included the formulation of an overall policy on investment,

..... during the Kubitschek period: see Econômica Brasileira, Vol. VI, Nos. 3/4, 1960. The first writers to draw attention to the similarities of approach between the Mixed Commission and the relevant chapters of Formação Econômica were Malan et al., op.cit. pp. 60-113. We shall seek to develop the points raised by those writers by means of a comparison of these texts with later works of Furtado of particular relevance, these being "Industrialização e Inflação", and The Three Year Plan.

1. See in particular Presidência da República, Programa de Estabilização Monetária, 1958 and Roberto Campos, "Two Views on Inflation in Latin America", in Hirschman, Latin American Issues, New York, Twentieth Century Fund, 1961, pp. 69-80.
2. Martins, op.cit., 333-358.

combined with an outline of complementary institutional reforms in the fiscal and administrative areas, and the definition of the requirements which should orient the participation of foreign capital. By 1952 the relevant técnicos had also drafted the project of agrarian reform, which was sent to Congress that same year - and rejected.¹

To judge by the hierarchy of priorities which was to regulate investment policy - oriented toward the vertical integration of the manufacturing sector and the elimination of the principal bottlenecks - we may justifiably speak of a policy of intensive industrialization. A complete package of new investments in the sectors of transport, energy, basic inputs, and heavy machinery was envisaged, and it seems that the team organized by the Assessoria even produced a number of specific projects. It is equally legitimate to speak of a moderately nationalist project, as an attempt was made to establish a rigorous division of labour in the allocation of investments, in accordance with the national origin of capital, through incentives aimed at giving priority to national capital, whether public or private, in the new undertakings, and in particular in the capital goods sector. This sector, unlike the rest, would not be 'negotiable' in principle with the foreign companies which might in time be concerned.

Similarly, a package of incentives to private capital in the areas of fiscal relief, credit, and exchange subsidies was envisaged, through which it would be possible to ensure state control over the distribution of the financial resources already available and to be mobilized in the future from international credit agencies. It is important to bear in mind that state enterprises and/or mixed public-private enterprises were seen as the second-best alternative for the desired investment programme, if the private national sector should prove to lack the "confidence" needed to take risks. Thus foreign capital was to be subjected to careful regulation. The question of its allocation was reckoned as decisive as that of legal restraints on remittances

1. See Chapter VI.

abroad.

The process of industrialization was to proceed, in other words, under the aegis of an enlarged and rationalized state sector, with a view to reducing in the medium term, the share of imports taken up by 'essential goods' and hence the vulnerability of the economy to fluctuations in the capacity to import, and to ensuring growing national control over the sectors regulating the dynamic of the process of capital accumulation.

The overall proposal set out by the group of técnicos attached to the Assessoria, having as its dynamic axis the intensification of the process of industrialization, suggests the existence of a conscious policy of development in the first years of the decade, for all that the period has been somewhat exaggeratedly described in the relevant literature as one of "spontaneous industrialization".¹

There is some dispute over the period from which the project can be dated, in particular as regards the policy of industrialization. While Malan et.al suggest that it was conceived in its entirety by the end of the Second World War, Skidmore is among those who trace it directly to the 1951 ECLA report on Brazil. In the light of recent research both views can be qualified.² It seems that although isolated proposals were made before 1950 for priority investments governed by the principles mentioned above with regard to the participation of public capital and private, whether national or foreign, it was only in the early 1950s that attempts were made to co-ordinate the planning

-
1. See Lessa, "Brazil, Fifteen Years of Economic Policy Making", Economic Survey for Latin America, New York 1965 and 1966. This writer, in a work dedicated mainly to the Plano de Metas of Kubitschek, was the first to contrast "spontaneous industrialization" before 1955 to a "conscious policy of industrialization". This is certainly true if attention is paid to the effective carrying out of such a policy. The emphasis placed here upon the existence of a project of intensive industrialization is related to our desire to explore both the conditions responsible for its inviability as a political project and the process of accumulation of political and technical experience which made the Target Plan possible in the late fifties.
 2. We are again relying here upon information provided by Sonia Dreibe relating to the Vargas period, and upon interviews with the relevant técnicos to which we return in the following chapter.

of a package of investments along the lines described. It is also undeniable that the guiding lines of the project in question are identical to those which oriented the ECLA diagnosis of 1951, which insisted upon the need "to take strong governmental action" both to eliminate the bottlenecks which were sources of inflationary pressure, and to provide some continuity in the process of substantive industrialization in order to ensure the rapid vertical integration of the manufacturing sector. To judge by the process of articulation already under way at this time between the técnicos in the Assessoria and the Brazilian representatives on ECLA (described in the next chapter) it seems more appropriate to speak of convergence than of a unilateral influence.¹ The relevance of the ECLA report, in our view, is that for the first time an international agency was conferring not only scientific legitimacy but also higher political credentials upon the nationalist project. Furthermore, given Vargas's active support of that agency, it was a sign of the opportunity provided for the relevant técnicos to articulate themselves into a system of alliances outside national areas of decision-making, parallel with and alternative to that of the cosmopolitas. Martins under-estimates the importance of this, and the effect is to play down the importance which the struggle for power among the técnicos would assume throughout the decade, including the whole of the Kubitschek period, and the significance of the conjunctures of political and economic uncertainty after the adoption of the Plano de Metas in 1956 and the reactivation of the conflict.

Turning now to the mixed Brazil-United States Commission, this began its activities in July 1951 under the auspices of the Conselho Técnico de Economia e Finanças, directly subordinated to the Finance Ministry headed by Horácio

1. Furtado was at the time an adviser to ECLA, and hence the co-author of the report. He had also worked as a técnico in DASP in previous years, and was not only familiar with the ideas of the nationalist group of the previous generation, but also participated in the system of alliances in formation in the Vargas period into which the nationalists were articulated.

Lafer, a paulista businessman and one of the founders of the PSD. The Final Report of 1953 was published in Portuguese in the same year by the Conselho, to which Vargas had appointed the economist Eugenio Gudín as director.¹

The selection as Foreign Minister of João Neves da Fontoura (PSD), known for his pro-American attitudes, came three months before the inauguration of the new President. This apparently premature decision seems to have been prompted by the conjuncture favourable to a rapid rapprochement with the United States, created by the calling of a meeting of the Latin American countries in Washington for December 1950, with the immediate objective of procuring the active support of those countries for the U.S.A., already embarked upon preparations for the Korean War. It is in the light of the changing international context, and particularly the prospect of a new war effort, that the switch seen in U.S. policy toward Brazil is to be explained. It was demonstrated in the willingness of the U.S. government to collaborate in a vast programme of re-equipping and expanding different infrastructural sectors through the mediation of official financial institutions.² In contrast with the Abbink Mission, the U.S. team in the Mixed Commission was committed to the elaboration of specific projects in line with the new diagnosis of the Brazilian economy which would be produced, and to a means of financing them somewhat similar to that which Roberto Simonsen had sought in the 1940s.

The marked shift in the attitude of the U.S. government was even more visible in the general guidelines which oriented the work of the Commission, and which were to affect the new approach to development policy, in comparison to that reflected by the Abbink Mission. These were, a) the comparative

-
1. The bulk of the information upon which the following pages are based is taken from Malan et al., pp. 60-112, and Martins, op.cit., 359-400.
 2. The shift in the political priorities of the United States became official at the time of the approval by the U.S. Congress of the Act of International Development, which made possible the type of co-operation formalized in the Point Four programme. According to Martins, the U.S. was specifically interested in assuring its access to the strategic mineral resources abundant in Brazil. In exchange, Vargas sought to negotiate the collaboration of the U.S. in the programme of industrialization he wished to carry out.

priority attributed to the goal of accelerated growth, to be achieved by "the joint efforts of the Brazilian and United States' governments", and b) the decisive role to be played by the public sector in infrastructural investment, a sine qua non for the creation of new investment opportunities for national or foreign private capital.¹

In what follows we shall examine the most relevant analytical results of the work of the Commission, as these are inseparable from the new approach to development policy in Brazil. These results reflect the breadth and the quality of the diagnosis of the Brazilian economy, and relate more specifically to the evaluation of the functional role of inflation and of exchange rate policy in the process of capital formation and of structural diversification in Brazil.

Two general characteristics catch the attention of the reader of the Report as indicative of the analytical framework underlying the work of the Commission. The first is the choice of an historical approach to the process of economic development between 1945 and 1952, which prompted a rigorous and balanced evaluation of the evolution of the economic system, combining an analysis of the causes for the exceptional performance of the Brazilian economy in the period, and the identification of the factors responsible for the recurrence of internal and external disequilibria. The second is the assumption underlying the analysis but made explicit in the conclusions, that it is futile to attempt

1. Comissão Brasil-Estados Unidos para o Desenvolvimento Econômico, Relatório Geral, Rio de Janeiro, 1954. As Malan et al. note, the instructions of the U.S. government to the Abbink Mission stood in clear contrast to the ideas underlying the work of the Mixed Commission. In the first case it was stated that "The Commission should not evaluate the merits of specific projects or assess the desirability of obtaining external financing" (Foreign Relations of the United States, Vol. III, p.455, 1947, cited in Malan et al., p.33). In the second case, the objective of the Brazil-United States Commission was to prepare "specific and detailed projects fit for the immediate consideration of financial institutions such as the Import-Export Bank or the International Bank of Economic Development. Furthermore, the new emphasis upon the complementary rather than antagonistic role of the public sector can be observed in the final objective put forward by the Commission: "the creation of conditions for increasing the flow of public and private investment, both foreign and national, required to accelerate economic growth". See Comissão Mista Brasil-Estados Unidos, Relatório Geral, p.20, cited in Malan et.al., pp. 60-70.

to establish explanatory principles and universal rules to resolve problems considered specific to a late-developing country. This assumption lies behind the preoccupation, patent in the report, with the search for politically viable policy prescriptions, and also serves as a basis for the explanation of past policy choices as results of a process of redistribution of political power between different economic groups.¹

The growth observed in Brazilian real incomes from 1939 to 1951, on an average rate of 5.6% per year, or 3.2% per capita per year, was attributed principally to "relatively high levels of public and private investment": according to the Commission the rate of investment in the period increased from 15% to 18%. The report also drew attention to the exceptionally favourable evolution of the terms of trade over the period, reinforced by the additional stimulus to investment in export agriculture resulting from the dramatic increase in coffee prices from 1949.

At the same time, the Commission corrected the analysis of devotees of the liberal creed in Brazil, emphasizing the vigour of private initiative, unhampered by the simultaneous growth of public investment. It laid particular stress upon the role of the private sector in the process of capital formation, pointing to the fact that it accounted for 75% of total investment, and to the shift in the composition of private investment, noting in this respect that capital goods were making up "growing and surprising proportions" of total industrial production, and that this was largely due to the vigorous response of private national capital.² Nevertheless, the report argued, as Bulhões

-
1. The most conspicuous example, and one which was of particular interest to the Commission, was recent exchange rate policy, which in contrast with that of the 1920s and 1930s reflected the growing influence of industrialists over exporters.
 2. Malan et al. draw attention to the Commission's over-estimate of the "surprising and growing" capacity of Brazil to produce capital goods domestically. The over-estimate in question resulted from a failure to appreciate that a) half of all capital goods were imported, in accordance with the most recent estimates, b) those capital goods produced internally had a high proportion of imported components, c) the growing over-valuation of the exchange rate led to an underestimation of the share attributable to imports of capital goods.

and Gudin had done previously, that great harm was being done by the proportion of private savings, as well as those of the Institutos de Previdência Social, channelled into speculative investment in the construction sector.¹

The Commission went into some detail on the relationship between accumulated pressure on the balance of payments, at the end of the period in particular, and the process of capital formation. According to the report, financing had been obtained, as well as from current saving derived from rising real incomes, from the drawing down of foreign exchange reserves accumulated during the war, and in particular from the heavy trade deficits accumulated in 1951 and 1952. Short term indebtedness was singled out by the Commission as one of the most important factors behind the exchange crisis which Brazil was experiencing at the time.

Finally, by identifying as a serious obstacle to continued growth the reluctance of the authorities to adopt "objective principles" to orient a policy for the long term, in particular as concerned investment, the Commission legitimized a certain amount of planning as a first resort to counter the disequilibria inherent in spontaneous development.

The analysis of these disequilibria is in turn one of the relevant features of the report, as it anticipates many arguments later developed by the structuralists. Firstly, as Malan et al. have pointed out, the growing regional concentration of income in the country since 1939 (real product per capita had grown by 50% in the Centre-South, twice the national average) was attributed to a deterioration in the internal terms of trade between the depressed regions and the Centre-South. This argument was to be one of the pièces de resistance of Furtado, and is found in its finished form in Formação Econômica do Brasil.

1. There are nevertheless clear differences of emphasis between the analysis of the Commission and those of those authors. See Malan Idem.

However, the fact that the interpretation was already present in his earlier work, A Economia Brasileira, and that, furthermore, it was a transposition to the internal dimension of these contained in the Prebisch report of 1949 on centre-periphery relations indicates a process of cross-fertilization rather than the origination of the interpretation with the Mixed Commission which Malan et al. suggest.

Secondly, the description of the characteristics of industrial development in Brazil, as it appears in the Commission's report, anticipates Furtado's interpretation, which would become the classic explanation of the process of growth and structural diversification in Brazil. Thus it was argued that the process of substitutive industrialization had advanced in tandem with the stimuli derived from growing difficulties with importing. In other words, it had come in response to successive devaluations (estimated by the Commission as totalling 50% between the late 1920s and the 1930s) and to the exchange controls introduced to counter growing inflationary pressures. In addition, the World War was held to have given an additional boost to Brazilian industrialization, as a result of the abrupt decline in external supply. Finally, the policies adopted by Dutra and described above were held to have stimulated a renewed surge of capital accumulation in the industrial sector.¹

Finally, the performance of the agricultural sector (considered the sector crucial for guaranteeing the flow of foreign exchange necessary to finance the process of development in the future) was analysed in terms similar to those described in our chapter on the Plano Trienal. (See Chapter V) The Commission argued that the insignificant growth of the real product of agriculture as a whole (at 29%, only marginally above population growth of 27% for the period) was an unsatisfactory indicator, as it concealed growing differences in productivity within the sector. The growth of production for the internal market, twice as great as that of production overall,

1. See Furtado, "Inflação e Industrialização", op.cit. pp. 220-221.

suggested that the performance of that sector was in principle adequate. Nevertheless even if the improvement in the terms of trade between food products and manufactured goods seemed to have contributed to the performance of agriculture production for the internal market, this did not mean that there had been a real improvement in the relative position of the direct producers. It was the Commission's view that two thirds of the increase in nominal income in the relevant sector had been appropriated by commercial intermediaries. The point is worth emphasizing, not only because it anticipates the treatment of the 1960s in the Plano Trienal, but also because it suggests a critical attitude on the part of the Commission to the forms of appropriation of increases in real income in the agricultural sector. This was to be one of the touchstones of the approach of Brazilian structuralists to the agrarian question, of more significance than the question of the low productivity of the sector.

The concluding section of the report is equally relevant to our analytical purposes, as it implies the need to implement stabilization-cum-growth policies in order to reach the principal goal of reconciling accelerated growth with relative balance of payments stability. In this sense too it anticipates the approach adopted by the authors of the Plano Trienal in a number of aspects. Firstly, it proposes a triple attack by the government through the intensive use of economic policy instruments, thus confirming the need to take strong government action to counter the distortions produced by a spontaneous process of development. Secondly, the listing of the three fronts on which government should act bears some comparison with the prescription of 1962-3. These were to be a) an emphasis upon selective credit policy and fiscal policy oriented toward a double goal, high levels of production and investment, and relative price stability; b) drastic modifications in foreign trade policy, and c) "truly decisive efforts to carry out programmes capable of removing bottlenecks in transport and energy, and of leading rapidly to the successful

exploitation of national sources of fuels".¹

To summarize then, in this area of stabilization-cum-growth policies it is also possible to speak of a convergence between the diagnosis of the Mixed Commission and the later approach of the structuralists, for the similarity goes beyond "anticipation". In both cases the analysts or planners were faced with the same vital issues; how to manage inflation given a commitment to accelerated growth, and an accumulated constraint at the level of the balance of payments.

It is however in the analysis of the inflationary process throughout the period 1939-1952 that we see manifested the comparative flexibility demonstrated by the authors of the report in relation to the current explanations until that time presented as alternatives. In what follows we shall summarize the manner in which the Commission took up the role of the expansionist policies pursued by the government in the period (criticized previously by Gudín and Bulhões) together with the role of structural factors in the inflationary process (the major preoccupation of the structuralists).

After pointing out that the acceleration of price rises was "in part a reflection of economic growth and the dislocations which went with it, but also reflects the influence of world-wide inflationary pressures arising out of the war",² the report goes on to list the immediate causes, these being balance of payments surpluses, the net deficit on the government budget, and the credit policy toward the private sector.³

-
1. The emphasis placed by the Commission on petroleum and energy sources resulted in proposals for immediate exploration for oil in Brazil, as oil took up a large share of imports. However, the form of initiative proposed presupposed the participation of foreign capital, at a time when the control of refining and commercialization of oil was one of the major issues of economic policy. The policy finally adopted, under the spur of an intense mobilization of the popular sectors in support of a nationalist campaign first launched by the military, was the creation of Petrobrás in 1953, giving a state enterprise a monopoly over the refining and distribution of oil.
 2. Comissão Mista Brasil-Estados Unidos, Relatório, op.cit., p.73.
 3. See Malan et al., op.cit., p.72. As these authors note, the role attributed
.....[continued over]

As far as external causes were concerned, the major emphasis fell upon economic policy measures taken in response to pressures from the foreign trade sector. In the view of the Commission "it is probable that from the beginning of the war up to a certain point in 1947 the increase in prices of exports and imports was an important factor in internal inflation in Brazil, just as the drastic reduction in total volume of all types of imports had been during the war years". In addition, though, the emphasis upon the relevance of economic policy was reflected in two comments. The first took issue with the simplistic idea that the policy of liberalizing imports would reduce inflationary pressures, as the imports freed would predominantly be capital goods. This might have been true in the long term, but the immediate impact tended to be inflationary rather than deflationary, as a result of the time-lag between the multiplier effect upon income and upon complementary investment on the one hand, and the increase in final production on the other. The second comment was that the methods of exchange control and import control adopted induced sudden shifts in the stocks of producers and traders, in response to successive policies of import liberalization and restriction.

The Commission went a step further, in relation to interpretations current in the period, by drawing attention to monetary expansion among the internal causes of inflation. It argued that to the extent that state and municipal deficits were largely financed from bank credit (given the deficiencies of the taxation system and the lack of voluntary purchasers of instruments of public debt) the expansion of bank credit was in part the result of expenditures in the public sector as much as in the private sector. The response from the banking sector to demands from all sectors of the economy at a rate in excess

..... to expansionist policies as one of the key factors responsible for the multiplication of means of payment (money in circulation had risen tenfold since the war) was restricted to the enunciation of an interaction between inflation and the policies in question. The Commission seemed to tend to the view that it was futile to look for a relationship of causality, as the expansion of means of payment could be either cause or effect of the increase in prices, costs, and incomes.

of increases in the supply of goods and services provided the central explanation for the inflationary process.

The structural and institutional factors specific to the Brazilian economy which were responsible for the disequilibria observed were, in the view of the Commission, as follows.

The first was the intensification of the process of industrialization and urbanization, which acted as a powerful stimulus to new investment, providing new opportunities without the necessary counterpart of increased levels of voluntary saving. Furthermore, once the process of inflation had begun, the natural tendency was for the gap between saving and investment to widen, to the extent that as a hedge against current inflation part of current saving was channelled either into unproductive investment or into re-investment by companies into undertakings already in existence. In other words, new investments were dependent upon recourse to bank credit.

Secondly, the particular vulnerability of the Brazilian economy to inflationary pressures was explained in terms of further determinants of a structural nature. These were a) the exclusion of the possibility of the diversion of export products to the internal market as a counter to rising food prices, given the nature of the products exported; b) the far slower rate of technological progress in the production of tropical crops than that observed for temperate zone crops; c) the flow of foreign capital, less than that to other countries in similar conditions, and d) the dependence of Brazilian industrialization, given the foreign exchange constraint, in large part upon the transfer of resources from the export sector through exchange rate policy.

The final diagnosis has the ring of a structuralist statement: inflation was instrumental in the process of capital formation, to the extent that "the inflationary climate gave a major impulse to industrialization and to the corresponding structural transformation of the economy, by encouraging risk-taking".¹

1. Comissão Mista Brasil-Estados Unidos, op.cit., p.87, cited in Malan et al., pp. 75-6.

The specificity of the problems of late-developing countries, according to the Commission, consisted in the need to ensure simultaneously the continuity of a "process of imitative industrialization" and provision for demands for consumption from the local population, influenced by patterns of consumption in the advanced countries. The implication, present only in embryonic form, was that such circumstances called for additional efforts from policy-makers to obtain relative price stability. In other words, the search for politically viable solutions was given priority over the technically feasible solutions dictated by contemporary economic theory.¹

A similar approach was taken in the analysis of the interaction between exchange rate policy, inflation, and industrialization. Two aspects of this need to be stressed here. Firstly, a rationale was sought for past policy choices implying the maintenance of a fixed exchange rate, increasingly over-valued given the inflation taking place, along with the introduction of import controls. Secondly, an evaluation was made of the effect upon substitutive industrialization, which itself would legitimize the options chosen to some extent.²

The data the Commission had to hand can be summarized as follows. Between 1939 and 1953 a doubling of the real domestic product had been associated with a rate of inflation totalling some 400%, while the rate of exchange had been kept fixed at around 18 to 19 cruzeiros to the dollar, despite market forces bringing pressure for depreciation after the war. The policy option taken,

1. Ibid., for the similarities between this part of the analysis and those later provided by Furtado on the question of the specificity of the process of industrialization in late developing countries. For our purposes, though, it is necessary to stress two points, developed in later chapters. Firstly, the approach of the Mixed Commission falls within an analytical framework which anticipates the explicit concern of the Three Year Plan: the urgent need to define stabilization-cum-growth policies, or in other words to conciliate shorter-run with apparently conflicting longer-run goals. Secondly, it is based upon the same methodological premise as the ECLA analyses (discussed in Chapter V), that of the structural specificity of developing countries.

2. See Furtado, "Industrialização e Inflação", op.cit pp. 213-243.

in the view of the report, reflected above all a redistribution of economic power from the exporting groups to the new industrial groups who were more directly interested in expanding the internal market.

At the same time, the mechanism of growing over-valuation combined with selective import controls represented the line of least political resistance, as it allowed the maintenance of the desired orientation - a shift in relative profitability between industrial and exporting sectors - without provoking open resistance from the latter. This would certainly have occurred if the authorities had resorted to alternative policies such as depreciation in combination with rising taxes on export products in order to ensure a transfer of resources between sectors.¹

A further contribution of the Commission was to make explicit the mechanisms associated with exchange rate policy through which the government acted to "propel and to direct" the redistribution of resources between sectors which finally led to a renewed burst of capital accumulation in the industrial sector. These mechanisms were a) a subsidy effect, implicit in the shifting of relative prices, making for a reduction in the prices of capital goods, raw materials, and fuels; b) a protectionist effect, induced by the restriction of imports of products competitive with those produced internally, and c) a profitability effect, in that by stimulating production for the domestic market the exchange rate policy altered the structure of profitability between the export and industrial sectors.²

However, although the report concluded that the policy was no longer proving functional for the ends which had inspired it, and pointed to its negative impact upon the balance of payments, it did not hold it responsible for the declining share of exports in national income. This trend, in the words of

1. See Malan et alles, op.cit., pp. 70-80.

2. Idem.

the Commission, seemed "to reflect much more the action of factors of structural change over the long term than the effects of the policy of exchange over-valuation in the post-war period". Among the negative effects, though, the Commission emphasized the disincentive to inflows of foreign capital and the additional pressure upon the balance of payments produced by the stimulus to outflows of capital and of profits.

In fact the systematic analysis by the Commission of the positive effects of inflation and of balance of payments policy upon the process of capital formation and structural diversification, in the face of the political impracticability of alternative options, was an integral part of a declared intention to re-establish a degree of balance in the evaluation of the policies adopted, as their negative consequences had already been sufficiently explored.

b) The accumulation of technical and scientific experience.

We are now in a position to draw some conclusions regarding the action of the Mixed Commission in Brazil. It seems undeniable that it represented an important turning point in the process of accumulation of technical and scientific experience. Not only did it produce some forty specific projects, thus contributing to the refinement of certain techniques of sectoral planning, but it also legitimized a more flexible approach to economic policy-making. More than an "advance in relation to conventional wisdom at the time" (Malan et al.), it introduced an analytical shift which pointed toward a gradual dissolving of divergences of a doctrinal nature over diagnoses of the Brazilian economy. We have already referred to isolated instances of emerging convergence between the interpretations of the Commission and the structuralists. It seems difficult, however, and perhaps pointless, to seek to determine the extent to which a process of cross-fertilization may have occurred between técnicos from the two groups who had traditionally been affiliated to different schools of economic thought. For our purposes it is important to point to the relevant aspects of emerging convergence between the técnicos, of which

the report of the Mixed Commission was an indication. We shall thus be able to gauge the limits within which such convergence was to be confined.

The most obvious of these aspects is the approach to economic policy, seen as a process with a rationale of its own, historically determined, and thus an integral part of the process of development; hence it is implicitly recognized that its logic is non-linear. The analysis of the inflation-over-valuation arrangement, in particular, in terms of its functionality for the process of capital formation and structural diversification, even as a temporary expedient, seems to us decisive. It reflects a high level of understanding for the contradictions inherent in the process of development. In other words, the "disequilibrium scheme" can be approached as a 'blessing in disguise' or as a 'curse in disguise', in the terms later generalized by Hirschman, taking into account its immediate and long-term effects, and leaving room for differing interpretations of the same phenomenon in accordance with the scale of priorities of the relevant political actors and economic agents. In this sense, the analysis of the Mixed Commission reflected the ascendancy of analytical assumptions foreign to the principles of the IMF, and thus closer to the structuralist approach. We return to this theme in the analysis of the ideology underlying the Plano Trienal, in Chapter V.

In addition, one of the implications to be derived from that diagnosis is that it reflected a continuing process of particular relevance, the emergence of a commitment to accelerated development as a priority, and its action as an important force blurring the analytical dividing line between cosmopolita and nacionalistas. This appears clearly in the complex interaction between monetary factors associated with expansionist policies and the political, economic, and structural factors given prominence in the report of the Commission.

A similar tendency can be observed with regard to the question of state intervention in the economy. The recognition by the Commission of the functions to be taken on by the state in imposing long-range direction upon the process of development and in carrying out a number of entrepreneurial functions through

infrastructural investment suggests a blurring of the difference between the relevant técnicos.

In conclusion, the reasons for the widening . . of the gap between the técnicos later on should be sought elsewhere, in their modes of insertion into the political system as part and parcel of different sets of alliances. This objective situation, doubtless reflected in different kinds of perceptions of and reactions to the extent of the economic constraints upon the implementation of the project of accelerated development, provides a better explanation, in our opinion, of different patterns of reactions, on the part of the técnicos to the changing political priorities of the U.S.A.¹ This can be better illustrated by means of a brief account of the events which led to the cessation of the activities of the Mixed Commission, and to the renewed ascendancy of the IMF and the World Bank, on behalf of the U.S. government, over the process of economic decision-making in Brazil.

c) the parameters of 'class collaboration' under economic stress.

We shall restrict ourselves to an indication of the principal features of the political context, as a basis for understanding two processes relevant to our purposes. The first was a return to a more conventional economic policy approach by the leading técnicos cosmopolitas (notably Roberto Campos), while the analytical framework adopted by the Commission was maintained and subsequently developed by structuralists such as Celso Furtado. The second was the growing consciousness on the part of the técnicos and policy-makers in general, arising out of contemporary political events, of the nature and extent of political constraints to policies of stabilization-cum-growth.

When faced with the exchange crisis of 1952-3, Vargas opted for tentative

1. In this case, the paradigms for an evaluation of the 'patterns of reaction' to which we refer here are the articles already cited of Furtado and Roberto Campos, both written after the report of the Commission had appeared, and the respective Stabilization programmes of 1953 and 1958.

solutions which were to prove contradictory. His first initiative, undertaken in 1951, was to seek to restore a free exchange market, as announced in the Presidential Address of March of that year, on the grounds that the growing overvaluation of the exchange rate was stimulating capital outflows. The political impracticality of the solution however, appears to have become apparent as a result of the opposition of a number of sectors. Thus it brought together groups directly benefiting from the exchange rate policy, such as industrial entrepreneurs, and other sectors of the elite, técnicos and professional politicians, who saw in the recourse to devaluation and the elimination of direct import controls a serious setback for the continuation of the process of industrialization, and/or an anti-popular turn. In the latter case because the return to a free exchange market would mean the elimination of the implicit subsidy on items essential for popular consumption, such as wheat and petroleum, which had hitherto been imported at the official rate of exchange.

At the end of 1951, under the spur of growing strains upon the balance of payments, Vargas switched to a more radical policy, whose cornerstone related to the issue of remittances of capital abroad. The imposition of strict limits to the repatriation of profits and dividends and also to outflows of capital "stimulated by the over-valued rate of exchange" was announced in the Presidential Address to the national Congress at the end of the year, and justified in dramatic terms.¹

The reaction of the State Department and of the World Bank to Vargas's decision was the immediate cancellation of the commitment to finance projects under preparation (with two exceptions) unless Brazil altered its policies discriminating against foreign capital.

The new direction imposed upon U.S. policy, although initially the result of internal politics, has therefore to be seen in a broader context, in which

1. Getulio Vargas, O Governo Trabalhista no Brasil, Vol. II, Rio de Janeiro, Jose Olympio, 1954; see in particular "Os Problemas de base da economia nacional".

decisive shifts in the international panorama were involved. The Korean War was over, and the Republicans had won an election victory in 1953. The effect of the changing priorities of the U.S. government which has most relevance, alongside the dramatic decline in World Bank loans to the Brazilian government, was the attempt to restore the guardianship of the IMF and of the World Bank over Brazil's economic policy.¹

The year 1953 was therefore decisive, for the evident unviability of Vargas's economic project represented at the same time the unviability of the political strategy in general which he had been pursuing, one of the consolidation of a policy of class collaboration between industrial entrepreneurs interested in the rapid expansion of the internal market, the urban working class, and the most modern sectors of the middle class, for whom the growth of national control over the economy represented a multiplication of managerial and bureaucratic jobs.

The material pre-condition for this strategy was the successful implementation of expansionist policies, while until 1952 economic nationalism was intended to provide the ideological pull in the building up of a multi-class consensus in support of Vargas's policies. Instead, in fact, the disruptive

1. "Until 1952 Brazil was considered a promising candidate for loans from the Bank. Thereafter particular policies pursued by the Brazilian government were considered by the Bank as prejudicial to the credibility of Brazil. The Bank tried to use the manoeuvrability of the loans proposed to modify these policies, but this led to a distancing of relationships with the Brazilian government. Loans declined between 1953 and 1954, and were nil in 1955-7"; cited from E.S. Mason and R.E. Asher, The World Bank Since Bretton Woods, Washington DC, Brookings Institution, 1973, p.659, in Malan et al. As these authors note, the year 1953 marks an important turning point, in the sense that it saw a drastic narrowing of the options open to the Brazilian government for launching a development project. "With the exception of 1958, between July 1952 and February 1965 the World Bank made no loans to Brazil."

effect of growing inflationary pressure would be reinforced by an attempt to implement containing policies of stabilization in the wake of the cabinet reshuffle of July 1953. The cost of living index doubled from 1950 to 1952.

Before examining these events, however, it is necessary to recall some features of the political background which allow an appreciation of the dilemmas facing Vargas once the Mixed Commission had ceased its activities and in particular after the re-establishment of an IMF/World Bank veto over internal economic policy decisions.

It is true that from the end of 1953 onward direct appeals to the mass movements and the use of more radical nationalist phraseology on the part of the President became more common, but this was due to the fact that other earlier initiatives had made possible a much freer play of existing political forces. This was to have some bearing on the build up of the economic and political crisis of 1953-4. The most important of these initiatives, along with the national campaign for the creation of a state company with a monopoly over the exploitation and commercialization of petroleum which led to the creation of Petrobrás in 1952,¹ related to the gradual liberalization of the trade union movement. Firstly, the requirement for candidates in union elections to present an 'ideological certificate' issued by the political police was dropped. This allowed increasing penetration of representatives of the Communist Party in the unions, at a time when the party was shifting toward a more radically nationalistic position, and abandoning the political strategy which it had been following since 1945 of articulating popular fronts which

1. See also Skidmore, pp.111-118. We cite from this book the following extracts from speeches made by Vargas before 1953, for purposes of comparison with the strategy adopted subsequently: a) (Christmas Eve, 1951) "You do not need strikes or appeals to extreme methods; don't let yourselves be moved by agitators and those who disrupt order and entice you with ideologies that conceal ambitions of a very different kind"; b) (May 1st, 1952), asking the workers for patience and for support for the government's "systematic and coherent plan of economic reconstruction, which is designed to increase our wealth for the benefit of all social classes"; cited from Vargas, Governo Trabalhista, II, pp.60 and 460-462.

sought alliances with sectors of the national bourgeoisie.¹ As a consequence, the renewed electoral competition between the PCB and the PTB represented a threat to the control of the latter over the labour movement.² Secondly, and more significantly, union elections had themselves been liberalized. The elimination of direct state intervention in the most militant unions (those of the dockers and the metal-workers), hitherto under the control of interventores, made more apparent to Vargas and to opposition groups the growing influence of the PCB. Lastly, the annual increases in the minimum wage decreed by the government up to 1953, although barely sufficient to cover rising prices, suggested a new attitude of greater sympathy than the Dutra government had shown. This novel wage policy fed inflationary expectations, thanks to the uncertainty of entrepreneurial groups with regard to their capacity to absorb future wage increases, and this was reflected in further price increases and in pressures converging on the Banco do Brasil for an easy money policy.³ It resulted, in turn, in growing discontent among the middle class, which could be manipulated by the opposition.

*

It is against this background that we must interpret the two experiences which in our view were decisive for the process of accumulation of technical and political experience by the técnicos. The first of them was the creation of the first official investment bank (BNDE), under the auspices of the Mixed
 1. — See also the case study in Martins, op.cit., pp. 267-358.

2. See Chilcote, *The Brazilian Communist Party*, New York, Oxford University Press, 1974. In the final years of the Vargas period the Communist Party adopted a more left-wing line, and was virtually in opposition to Vargas at the end of the period.
3. Despite the efforts of Finance Minister Lafer to impose a tight money policy, the President of the Bank of Brazil, Jaffet, adopted a relatively liberal credit policy on his own initiative, in response to direct pressures upon the Bank from industrialists. One of the permanent difficulties of an institutional nature as far as the implementation of a stabilization programme was concerned was the absence of a Central Bank or a similar institution to co-ordinate monetary and credit policy. The Ministry of Finance was thus under political pressures contradictory to those weighing upon the Bank of Brazil, and this explains in part the recurring conflict between the leading officers of each entity.

Commission. The second was the brief experiment with a stabilization programme along lines laid down by the IMF.

i) The creation of the BNDE.

The creation of the BNDE in 1952 was the direct result of the activities of the Mixed Commission.¹ It should be recalled that the need for an official investment bank charged with the definition of an investment policy and the preparation of specific projects was agreed among the técnicos. Nevertheless, as Martins has shown, the set of initiatives required were taken by the political actors classed by him as "one of Vargas's two arms", the cosmopolitas, directly or indirectly linked to the activities of the Commission. The fact that the leading dramatis personae of the period were Lafer, Finance Minister and Fontoura (Foreign Minister), and that both were favourable to closer co-operation with the United States, is symptomatic of the renewed impetus given by the activity of the Mixed Commission to the consolidation of a system of alliances which had been taking shape since the end of the Second World War, between entrepreneurs of a new type, such as Lafer, linked to the production of capital goods, professional politicians, such as Lafer himself or Neves da Fontoura, and técnicos such as Lucas Lopes and Roberto Campos.

Of equal importance are the patterns of action adopted by those Ministers in the conjuncture of uncertainty which opened with increasing tension between the Brazilian and U.S. governments from the beginning of 1952. Horacio Lafer and Fontoura were playing a double game with Vargas and with the U.S. government, exploiting their exclusive access to pertinent information. On the one hand, they 'inflated' the amount of financial resources the U.S. government was prepared to guarantee with Eximbank and BID for the creation of a new investment bank in the information they gave to Vargas, concealing

1. See the case study in Martins, op.cit., pp. 359-406.

at the same time the specific conditions attached to the loan.¹ On the other, one of the cards thrown onto the table in the Washington negotiations was the growing popular mobilization and the consequent threat to the political stability of Brazil. Thus they sought to demonstrate the need to promote economic development at the rate planned.² This recourse to a pattern of action of a conspiratorial nature by the cosmopolitas is significant for two reasons.³ Firstly, the fact that the relevant initiatives were taken in secret, and out of the sight of other political actors, reflects the ascendancy in key decision-making areas of the executive - the Finance Ministry, the Foreign Ministry, and the Conselho Técnico de Economia e Finanças - of a group representing economic interests not yet hegemonic. This was made possible, obviously, by the policy of conciliation pursued by Vargas, and by the attempt to exploit the shift observed in U.S. policy after 1949-50 to the advantage of his project. Secondly, the initial control of the BNDE by the técnicos cosmopolitas, their occupation of key posts in that institution, and their command over the distribution of the new financial resources available, indicate that in the Vargas period the seeds were already sown for the pattern of development associated with U.S.

-
1. Apart from having inflated the amount of resources available, by doubling it to 250-300 million dollars, the two Ministers 'overlooked' in their report to Vargas the insistence of the U.S. government that the financing would be granted only if tied to the preparation of detailed projects, and if confidence in Brazil's credit was maintained. The latter was in fact severely shaken by the switch described above in Vargas's strategy. Martins, *idem*.
 2. The recurrent use of the argument of the threat of internal subversion recalls Martins' observation that these positions were half-developed among sectors of the Brazilian elite seeking closer relations with the U.S.A. before their full emergence as official U.S. doctrine after the Cuban revolution. In fact the "doctrine of internal security" developed by the Escola Superior de Guerra (ESG) after its founding in 1953 dates from this period. The ESG was to become the centre of the ideological generation of the positions of the cosmopolitas, and the role of the Armed Forces was to be redefined in the light of its doctrine.
 3. Martins, *ibidem*.

capital which would later emerged under the aegis of the Plano de Metas in the Kubitschek years.¹ These two points have been sufficiently discussed by Luciano Martins, but there are other aspects which should be examined, directly associated with the functions exercised by the BNDE.

The BNDE was one of the key institutions in the process of economic decision-making throughout the 1950s, on account of the multiple functions it exercised. The main ones were a) that of principal financial intermediary between international credit agencies and private business groups and/or state companies; b) that of planning agency, to the extent that it defined investment policy, and took upon itself the preparation of specific projects; c) that of a privileged agency from which the state guaranteed the intra-sectoral redistribution of power in favour of certain industrial groups operating in or turning their attention to the internal market. By giving preferential access to the new resources and considerable favours in terms of credit, it minimized the risks involved in new investment in the priority areas of capital goods, durable consumer goods, basic inputs, transport, and energy.

To summarize, the process of the institutional concentration of power associated with control over the new resources for the promotion of development went hand in hand with a process of concentration of technical expertise, which was required by the nature of the functions to be performed by the Bank, and was manifested in the adoption of rigorous criteria of merit for recruitment to its staff. The political significance of the creation of BNDE can be better evaluated if consideration is given to the double 'dislodgement effect' which

-
1. From the point of view of the processes of decision-making which saw the origins of the creation of BNDE, the arguments and evidence marshalled by Martins are irrefutable. They bear witness to the growing ascendancy of the cosmopolitas, a group composed of técnicos (considered technocrats by Martins), military officers, and professional politicians integrated into a loose alliance. Nevertheless, to judge by the composition of the directorate of the BNDE after the Vargas period, and by the creation of a permanent working group - the BNDE-ECLA Mission - the nationalists more often than not seemed to have the upper hand. It seems more precise to think of BNDE as one of the nodal points of the struggle for power between the two groups of técnicos.

it made possible, and which was to become more clearly apparent in the last years of the decade. Firstly, its growing ability to lay down the line to be imposed upon the process of industrialization meant a decline in the effective power of the traditional agencies involved in shaping economic policy, such as DASP. Secondly, its existence made institutionally viable the circumvention of the control exercised by Congress over the initiatives of the executive with relation to the broad process of inter-sectoral redistribution of resources from the traditional agro-export sectors to those of an industrial nature.

To conclude, the creation of BNDE was an isolated experience which anticipated what would become a general political strategy under Kubitschek when a rationalizing administrative reform had to be carried out while minimizing the political cost: a new administrative structure would be installed alongside that already in existence, to avoid the veto power of a Congress dominated by parties wedded to clientelistic practices, as we shall see in a later chapter. It is significant that the political actors in each case were the same, as were the individuals directly involved. For those who had been involved in the activities of the Commission (Lafer, Lucas Lopes, and Roberto Campos) and had been economic advisers to Kubitschek during his governorship of Minas Gerais, and thus gained experience of the political problems of the overall administrative reform opposed by the local Legislative Assembly (Lopes and Campos again) were to become the architects of the political strategy of the late 1950s.

ii) The stabilization programme of 1953.

Turning to our second example, the stabilization programme put into operation between August and December 1953 was orthodox in character. The decision of the government to opt for stabilization, if not the choice of the particular policies adopted, should be set against the background of increasing social pressure internally for strong action to halt inflation; it was not simply the result of international pressure. A doubling of the rate of inflation between 1950 and 1952, and the critical situation of the balance of payments, combined to strengthen the hand of those who favoured the immediate reversal of these trends, inside and outside official circles.¹

The composition of the new cabinet named in July 1953 was one indication among others of a changing political strategy on Vargas's part - that of mobilizing the support of the urban masses for his government more directly. The previous tactic of conciliation, which did not exclude attempts at approximation to the opposition UDN, gave way to a new one, which consisted of pushing one of the two arms upon which the government relied further to the left.. The nomination of Goulart as Minister of Labour was not the gesture to the extreme left which the opposition painted it, but it did signal a definite move to the left, to judge by the permissive attitude adopted by the government to growing labour unrest. This was exemplified by its tolerance of an event unheard of since 1917, a general strike called in São Paulo in 1953 by the most militant trades unions which received a good response from

1. The relative position of the técnicos and the eventual conflicts between the two leading groups remain obscure. It is important to point out, however, that the structuralist analysis of Brazilian inflation was still in embryonic form. Even so, to judge by the general positions assumed in the 1940s and subsequently brought together in the journal of Econômica Brasileira, it is probable that the orthodox programme of stabilization was severely criticized by them. See Economica Brasileira, Vol. I. No.4. "Análise do Processo Inflacionário no Após-Guerra", 1955.

unionized and non-unionized labour alike. At the same time, the new Finance Minister, Oswaldo Aranha, a friend and ally of Vargas since the revolution of 1930, enjoyed easy access to official circles in the U.S.A. by virtue of his past record as Ambassador to that country and to the United Nations.

The reasons given by Skidmore for Vargas's shift to the left, considered by him "an imprudent move" in view of the growing articulation of civil and military foci of opposition, are of relevance here for such a move helps us to account for the political constraints to stabilization.¹ Briefly stated, they revolved around the need to meet a double threat: on the one hand, he risked being outflanked by radical nationalists, and by the Communist Party in particular; on the other, he risked losing the electorate, in future presidential elections, to the rising populist governor of the state of São Paulo, Ademar de Barros.

It seems to us however that what may have seemed an imprudent step was no more than an attempt to hold the social compact together in order to secure support for his policies. The difficulty of the undertaking lay precisely in the heterogeneity of the social and political forces arrayed behind Vargas, ranging from the PSD-PTB alliance in Congress to a radicalized trade union movement which certainly threatened to escape the control of the state. In the circumstances, the conjuncture of crisis and uncertainty in the economy, made acute by the rising rate of inflation and by the critical situation of the balance of payments, revealed fissures which in times of normality or of accelerated growth were less visible, by laying bare the contradictory interests of each class or class sector supporting what has conventionally been dubbed the 'populist pact' whenever stabilization was attempted. Thus the conjuncture

1. The principal foci of opposition were firstly the UDN, secondly the Clube Militar, the leadership of which had been wrested from the nationalists who controlled it until 1953, after a heated election campaign, by officers favouring closer integration into schemes of international co-operation with the United States, and organized in a group entitled Cruzada Democrática, and thirdly, as already noted, the Escola Superior da Guerra

reached in 1953-4 brought to light for the first time the dilemmas which were to come to the fore again in 1958, and particularly 1963, dilemmas posed by the inherent strains built in to the class conciliation which was Vargas's preferred strategy.

The general outlines of the Aranha stabilization plan were a) a call for a prudent slowing down in the rate of industrialization; b) cuts in government expenditure and associated tight money and credit policies - this time agreed between the Minister of Finance and the President of the Banco do Brasil; c) wage increases in line with the rate of inflation since the latest increase of December 1951, and d) a reform of exchange rate policy, with the introduction of a multiple exchange rate auction system.

It is relevant to our purposes to ask why the stabilization programme failed, and what it achieved, given our interest in establishing the relationship between that experiment and the process of accumulation of technical and political experience by técnicos in each camp.

The impracticability of a tighter money and credit policy soon became evident, given the pressures from merchants and entrepreneurs, especially in industry, upon the banking system and the Banco do Brasil. These led by the end of the year to increases in the money supply over and above the planned target. As it happened, the liquidity crisis created was worsened by expectations of further cost-push inflation arising out of wage increases and confirmed by the general strike of 1953. In the meantime, the difficulties experienced in implementing an efficient money and credit policy had political and institutional roots: a factor which the Mixed Commission had stressed, and which was agreed among the técnicos, was that Brazil lacked an institution which could carry out the functions of a Central Bank (created only in 1964), enjoying a certain degree of political autonomy and unified authority, and able to supervise the banking system and co-ordinate money and credit

policies.¹

One of the initiatives with long-term effects which had important implications for future economic policies was the exchange reform of 1953, carried out as part of the stabilization programme. Its characteristics and effects on the performance of the economic system will be discussed at length in chapter IV. Suffice it to say that it was a compromise between the maintenance of a relatively rigid import rate for certain essential products and the partial restoration of a free exchange market both for invisibles and capital items (to attract capital) and for a proportion of export earnings, combined with variable export rates. The new system went some way toward meeting the demands of industrialists for privileged treatment while accommodating the interests of the agro-export sector, and at the same time consolidated the role of the state as the central agency for the distribution of resources between sectors. The auction system guaranteed the direct appropriation by the state of a substantial proportion of the foreign exchange receipts generated by the export sector and negotiated on the free market.

To summarize, in the absence of a relatively modernized capital market, and given the difficulties involved in implementing a tax reform, exchange rate policy was to be maintained as a permanent mechanism for the modification of relative profitability between the sectors mentioned above, and would in addition operate as a fiscal instrument, capturing resources for the state. We should point out further that the profit, subsidy and protection effects identified by the Mixed Commission continued to operate as they had in the past, in spite of the redefinition of the hierarchy of privileges and penalties for particular economic sectors and agents.

Goulart's proposal of February 22nd, 1954, for an increase of 100% in the minimum wage (meaning 27% increase in the real minimum wage) contrasted

1. See the Plano Trienal, for evidence that the same institutional problem handicapped stabilization programmes up to 1963.

with the preference of Vargas's economic advisers, who finally prevailed. nevertheless, it was enough to re-awaken inflationary expectations and stimulate mounting opposition. In the end, the position adopted by the President, in favour of a rise of 62%, was virtually indistinguishable from that of his economic advisers, the Minister of Finance, and prevailing opinion in business circles: it reflected the view that wage increases should be sufficient to make up for inflation since the last adjustment of late 1951.¹ The disagreement between the Ministers of Labour and Finance bore witness to the widening gap between the political forces making up the alliance behind Vargas, now reflected within the executive.

From this point onward, Vargas's response to the dilemmas which confronted him was to adopt a tactic of reacting to events, shifting to right and left in turn at increasingly frequent intervals. We shall confine our discussion to the most important of the erratic moves of the President, representing as they did the absence of a political or economic strategy, and the weakening of the government. We note also the comparison with the events of 1963-4, which will become evident in our final chapter.

Foremost among the events leading up to the cabinet crisis was the revelation of Goulart's intentions in January, before the project was formally presented to Vargas. At the end of February he responded with a partial cabinet reshuffle, naming to the Ministry of Labour an elderly bureaucrat from within it, and to the Ministry of War General Zenobio da Costa, who had supported Vargas in his election campaign, but was known as an active anti-communist.

This first shift is important, because the cabinet crisis came about as a result not only of direct pressure from senior officials in the Armed Forces who had had the upper hand over the nationalists in elections in the Clube Militar since 1953, but also of response to a hitherto unparalleled movement

1. See the position of Oswaldo Aranha, contrary to that of Goulart, in "Exposição Geral do Ministro Oswaldo Aranha à Camara de Deputados" (mimeo, October 1st, 1953), cited in Skidmore, op.cit pp. 366, 367-8.

among junior officers. The movement, which had a political character over and above the specific demands which were made, was formalized in a document presented to the then Minister of War, General Espirito Santo Cardoso, on February 8th; it became known as the Manifesto dos Coronéis. Though it made no mention of Vargas or Goulart, the document raised political themes currently greatly exploited by the civil opposition: the "Communist threat", the infiltration of "anti-democratic elements" in the Army, "threats to authority and discipline", and "corruption in business circles", who, unlike the military, had recourse to such dubious defense mechanisms as inflation. In addition, the document expressed the principal concerns of the younger officers in terms of economic policy issues:¹ a) a salary increase in line with their social position, as a 100% increase in the minimum wage would place a skilled worker on a par with a university graduate, and b) the re-equipment (thus far neglected) of a number of army units.

The text, divulged by the press on February 20th, twelve days after it had circulated among the officers, attracting the signatures of 42 colonels and 39 lieutenant-colonels, is of relevance on account of the political impact it had, and because of its implications for the formulation of economic policy. It symbolizes the problem of implementing a stabilization programme in circumstances in which one of the major issues at stake was the achievement of a redistribution of income in favour of the popular sectors, for to judge from the document, the government's neglect of the maintenance of wage differentials compatible with the special status of its authors (the "guardians of our institutions"), and its failure to provide additional finance for re-equipping the army, had an important bearing on the rebellion of the younger officers. The pattern was to recur in 1963.²

1. For a detailed summary of the "Memorial dos Coroneis", see Skidmore, op.cit., pp.127-9.

2. See the final chapter.

The Presidential Address to Congress in March 1954 explained the balance of payments situation as a result of the precarious position of countries such as Brazil in their trading relations with the industrialized countries, developing a structural argument very similar in its terms to the ECLA analysis of the period, concerned with deteriorating terms of trade. He thus legitimized, as a political resource, the type of analysis favoured by the técnicos nacionalistas. This approach to the fluctuations observed in Brazil's capacity to import, combined with repeated denunciations of the ill-will and voracity of foreign-owned companies, was a defensive move against opposition sectors, who centred their attack on "badly conducted economic policy and corruption"; at the same time it re-iterated an anti-imperialist position capable of uniting the various nationalist groups against the liberal policies of the IMF.¹

On April 4th, statements made to the press by former Foreign Minister Fontoura gave some ammunition to those sectors of the opposition who accused Vargas of seeking, in collaboration with Goulart, to establish a syndicalist Republic along Peronist lines. The ex-Minister accused Vargas of having begun secret negotiations with Perón with a view to creating an anti-imperialist coalition of the ABC countries (Argentina, Brazil, and Chile). These revelations represented a decisive factor in the process of

1. Skidmore, *idem*.

disruption of the increasingly shaky party alliance between the PSD and the PTB.¹

Finally, the gradual abandonment of the "parameters of class collaboration" as a regulating principle of Vargas's political strategy was confirmed in his speech to the workers in Petrópolis on May 1st. On this occasion, Vargas implemented the wage increase of 100% which Goulart had proposed. The closing words of the speech were conclusive:

With your votes you can not only defend your interests, but you can influence the very destiny of the nation. As citizens your views will bear weight at the polls. As a class, you can make your ballots the decisive numerical force. You constitute the majority. Today you are with the government. Tomorrow you will be the government.²

To summarize, the decision to concede the increase, which led to a redistribution of income in favour of the urban working class by providing a 27% increase in real minimum wages over the period, was not just an isolated initiative. It represented a serious threat of disruption of the social compact', not a routine political stratagem aimed at keeping it together. Naturally enough, it alienated the support of the leadership of the PSD, the industrialists, and the financial groups directly or indirectly linked to that party.

The dramatic increase in the minimum wage and the content of the speech transcribed above were, then, political stratagems used in extremis. Both were at odds with the political biography of the President, and, more significantly, with the political memory of the sectors of the dominant classes who had given their support to his policy of class collaboration. It should be stressed therefore that the redistribution of income in favour of the working class in the early 1950s, was a rapture of populism rather than a consistent policy.

It is beyond the scope of this work to reconstruct the events which culminated in the direct intervention of the military into politics on August

1. Ibidem.

2. Ibidem.

24th, 1954, when they demanded the resignation of Vargas, thus anticipating the civilian opposition, which was organizing his impeachment by Congress.

For our purposes it is necessary only to advance a number of hypotheses regarding the form in which the historical process which came to an end with the suicide of Vargas affected the process of accumulation of political experience by técnicos located in key decision-making areas.¹

iii) The political constraints upon the implementation of development policies: a first insight.

The exchange rate reform of 1953, an integral part of the Aranha plan, clearly reflected the growing awareness of the cosmopolitas that there were political restraints upon the full restoration of a free exchange market of the kind prescribed by the IMF. The willingness of policy-makers to adopt a flexible attitude to exchange rate policy was also a result of the work done by the Mixed Commission, as we have tried to show. By the same token, the exercise of a veto power by the IMF and the World Bank over economic policy decisions - part and parcel of changes in the international context - demonstrated to the técnicos nacionalistas the inviability of a project for accelerated development in the absence of a policy of special favours for foreign capital.²

At the same time, two experiences related to institutional reforms recognized by all the técnicos as pre-requisites for a development policy signalled the limits placed by Congress upon the autonomy of the executive. One was the tactics of obstruction used by the Legislature to prevent the passage

-
1. Some of the hypotheses advanced are conjectural; others are based on interviews with such técnicos as Furtado and Campos, and others who prefer not to have their names mentioned.
 2. Other factors of an economic nature responsible for the changes taking place in the international background converged to produce the adoption of a model of associated development under Kubitschek. Malan et al. give the following appraisal after drawing attention to the end of the Korean War and the reconstruction of the economies devastated by the Second World War: "the progressive liberalization of international trade among the developed countries and the recovery of international flows of private capital" permitted close on "two decades of exceptional prosperity for the developed world": op.cit. pp. 35-6.

of a project of a general administrative reform proposed by the Executive. Equally, the difficulty in defining the scope, in social terms, of a tax reform, also considered necessary, lay in part in the resistance which policy-makers expected to come from the political parties. Thus at the same time that commitment to the need for an enlarged and rationalized state sector was emerging as a common denominator among the técnicos the political constraints imposed by a political system dominated by clientelistic practices upon the possibilities of the institutional reforms necessary for the more efficient carrying out of entrepreneurial functions, whether in the public or the private sector were becoming clear. The operation of such constraints, obviously, was more clearly perceptible at a time when effective stabilization action became the vital issue.

In this connection, it is worth returning to a point made in the introductory chapter. Given the pervasive nature of clientelistic practices in Brazilian parties, the patronage system had significant feed-back effects, in the sense that it imposed strict limits upon the initiatives of the executive, and the process could be observed whenever a cost-reducing all-over administrative reform was urgently sought.

Finally, the switch of direction to redistributive policies of a populist nature, and the existence if still confined to official circles, of a proposal for land reform, and extension of social legislation to rural workers, were illustrative of the inherent strains, and the limits, of the social compact institutionalized in the alliance between the PSD and the PTB.¹

1. See Chapter VI for an analysis of the initiatives of the Executive in the agrarian front and the major foci of resistance. On the other hand as Campelo de Souza pointed out Vargas' suicide was a great spur to the reconstruction of the PSD-PTB alliance, as a political counter to the growing strength of the UDN. A further result of Vargas's suicide was a similar switch in the policy of the Communist Party, which developed a position of self-criticism with regard to its "left deviationism", in the early 1950's.

To summarize, the dramatic denouement of Vargas's suicide, the military intervention of 1954, and the later movement of November 1955 which made it possible, the installation of Kubitschek as President guaranteed by constitutionalists within the Armed Forces, confirmed for the técnicos and for policy-makers in general the precarious nature of democracy in Brazil. If one is to assume, as we do, the commitment of a certain number of the técnicos cosmopolitas, as well as the nacionalistas, to a project of accelerated growth - a valid hypothesis in the light of the record of the Mixed Commission - it is possible to obtain a first insight into a final point of convergence between the técnicos: the willingness of the técnicos nacionalistas to co-operate upon a project of intensive industrialization under the aegis of an enlarged and rationalized state sector. This came about not simply because the Plano de Metas implemented in the 'years of confidence' offered a multiplication of managerial and executive jobs, or because such a project could provide political legitimization, but because it gave material form to a number of demands which were part of the political creed of nationalism. The latter point will be explored in the following chapter.

CHAPTER III

THE TECNICOS NACIONALISTAS: ECONOMIC IDEOLOGY, VALUE SYSTEM AND PATTERNS
OF POLITICAL ACTION.

One of the objectives of the present chapter is to provide a more systematic account of the political and ideological spectrum within which the técnicos were placed once the Vargas' cycle was over. We applied Jaguaribe's approach to the classification of Brazilian political tendencies to the técnicos; namely, in accordance with the way in which they conceived of capitalist development in Brazil and the desired mode of insertion of the country in the international economic and political system.¹ This chapter will elaborate on the theme that the distinction between nacionalistas and cosmopolitas became of substantial importance after the suicide of Vargas, and should be not obscured by the application of the vague label desenvolvimentistas to the two groups.

Most of the present chapter will be devoted to the técnicos nacionalistas and their value system and forms of political legitimation - a point which will be discussed in connection both with their mode of participation in the political system and their patterns of indirect political action. This analysis will also examine the extent to which one may speak of a newly emerging technocracy and particularly of a technocratic ideology from the mid-1950's on. The claim will be made that given the place and function of the relevant técnicos in the political system and their preferred patterns of action it will be more accurate to describe them as "producers of ideology" than as technocrats. In this connection, the role of the thought of ECLA in filling an ideological (as much as an analytical) vacuum will be spelled out.

Nevertheless, during the Kubitschek administration there was a convergence

1. Helio Jaguaribe, Desenvolvimento Econômico e Desenvolvimento Político, (Rio de Janeiro, Fundo de Cultura, 1962) pp. 195-210.

between the desenvolvimentistas of each camp - which would prove temporary.

The factors contributing to this convergence will be reviewed at the end of this chapter.

The evidences come from four sources. The first was the journals and periodicals in which the técnicos expressed their views.¹ The second was the books written by the best representatives of the groups and sub-groups of técnicos.² There is also evidence provided by the political scientists who dealt at some length with the question of how the técnicos related to the political system.³ Finally a series of interviews with some relevant técnicos have helped us to explore their mode of perception of the working of the political system, as well as their attitudes vis a vis the professional politicians. Their views, however, have been checked against interviews with some técnicos cosmopolitas, professional politicians or with technical advisers to the latter.⁴

1. Revista Brasileira de Economia (RBE). a quarterly magazine under the control of the cosmopolitas; Econômica Brasileira (EB) issued under the aegis of the Clube dos Economistas, from 1954 to 1962; Desenvolvimento e Conjuntura (DC), published by the Department of Economics of the National Confederation of Industries (CNI), also a quarterly periodical; Digesto Econômico (DE), quarterly magazine published under the auspices of the Associação Comercial where the more "orthodox" views on policy-making in Brazil can be found.
2. Bulhões, Augusto de, O Ministério da Fazenda no Sistema Nacional de Estatística e Aspectos da Situação Econômica e Financeira do Brasil, (Rio, IBGE, 1956).
Gudin, Eugenio, Inflação, Crédito e Desenvolvimento, (Rio, Livraria Agir Editora, 1956).
Gudin, E. Análise de Problemas Brasileiros 1958-1964 (Rio; Agir Editora 1965)
Campos, R., Economia, Planejamento e Nacionalismo (Rio Apec Editora, 1963)
Campos, R., A Moeda, o Governo e o Tempo, (Rio, Apec Editora, 1963)
Campos, R. "Two views on Inflation in Latin-America", in Hirschman, Latin American Issues, op.cit.
Campos, R. Ensaio de História Econômica e Sociologia, Rio, Apec Editora, 1963).
Furtado, Formação Econômica do Brasil, (São Paulo, Editora Nacional, 1958).
Furtado, Desenvolvimento e Sub-Desenvolvimento, (Rio, Fundo de Cultura, 1961)
3. Respectively Lafer, C., The Planning Process and Martins, L., Pouvoir et Développement
4. We are indebted here to Celso Furtado, Sebastião Advincula da Cunha, Plínio de Arruda Sampaio, Roberto Campos, Jose Gregori, Almino Affonso and to a number of "técnicos" who prefer not to have their names mentioned.

1. The basic options and economic ideology

The key criterion for dividing the técnicos into two groups, nacionalistas and 'cosmopolitas', is the way in which they conceive of capitalist development and its mode of insertion in the international economic system.

Economic nationalism had flourished in the nineteen-thirties. In Brazil, nationalists proposed a national economic development project wherein the main actor would be the national entrepreneurial class. By the fifties, when a new kind of técnico had arisen - the economist - this project was adapted to take into account the terms of ECLA's discourse. In other words, self-sustained growth, the main target to be achieved in order to overcome the country's vulnerability to the vicissitudes of its import capacity, came to be seen as subject to: a) real consolidation of the domestic market, as the main dynamic impulse to development, and b) a capital formation process mainly aimed at the vertical integration of the manufacturing sector with a view to attaining relative self-sufficiency. The national entrepreneurs, however, while undoubtedly the principal beneficiaries of such a process, were nonetheless no longer seen as its propulsive agent. In the fifties, as in the thirties, it was generally conceived that they would be unable to assert themselves as carriers of an autonomous development project. This latter point, although in a different context would be stressed in the TYP. (See Chapter V).

The kind of economic dirigisme explicitly defended by this group was based on State intervention at three levels: first defining and giving long-run direction to national development through state planning; second, as the main internal and external intermediary in the mobilization and transfer of real resources; finally, as performer of the entrepreneurial functions considered strategic from the political and economic point of view.

The term "nationalism" here is used with the following meaning: that the project in question is moderately autarchic and sponsored by a 'strong State' which, as we shall see below, is also held to represent the nation. It does not, however, exclude the participation of foreign capital: so long

as the latter can be disciplined in accordance with pre-determined priorities in line with the 'national interest', it would be welcome. Variants can be distinguished, depending on the degree of freedom to be conceded to foreign capital, and the degree of exclusivity given to the emphasis on industrialization, or the combination of the latter with a clearly redistributive concern.

The técnicos of this persuasion could be classed as desenvolvimentistas and estatistas, as they defended a project of accelerated growth, centred on a State-sponsored industrialization policy.

As already suggested, the ECLA doctrine came to supply the technical rationale for a nationalist position which anteceded it. This can be seen from the adoption of structuralist theses, which, in the early fifties, became an additional criterion for identifying the relevant técnicos. The scope of this discussion will be limited to the analytical assumptions and the most widely diffused theses of the nacionalistas, or in other words those which served to unify the various subgroups within this bloc.

In contradistinction to the kind of evolutionism which sees underdevelopment as a mere stage to be left behind - thus impinging 'universalistic' explanatory premises of the IMF - Brazil was approached as a typical historical formation whose process of growth by fits and starts and whose mode of structuring were determined by its specific form of insertion in the international economy. This point is fully explored in our analysis of the ideology underlying the TYP, (Chapter V). In the second place, growth and integration of the domestic market - the chief drive for development - was seen as inseparable from a politico-ideological position, insofar as the formation and diversification of the domestic market - "displacement of the dynamic centre of growth" - takes on the form of the political category, "the process of internalization of the decision-making centres".¹

1. The best achieved transposition of a key economic concept such as "displacement of the economic centre" into a thorough political category "internalization of the centres of decision" may be found in the books by Furtado quoted above - and of course in a number of non-Brazilian authors which espoused the Ecla's views.

The third element is the defense of overall planning, a typical structuralist feature, based on the chief assumption that distinguishes this group from the neo-liberals - the unreliability of market laws, whose mode of operation in countries on the periphery was seen as tending to reinforce their economic backwardness.

Even more important for our purposes, the adoption of a theory of inflation as a structural phenomenon was indissolubly linked to a comparatively more permissive position regarding this kind of disequilibrium, in that it appeared in the form of a historical 'tribute' associated to the process of spontaneous growth, and thus could only be dealt with through planning of investment, directed at the critical bottleneck sectors reckoned to be the structural sources of inflationary pressures. Finally, yet another typical feature of the structuralists was the preference for fiscal rather than monetary weapons, both as a means of mobilizing resources and as anti-inflationary therapy.

The associated theses of industrialization and planning arose in effect during the early fifties, as the dominant themes which gave internal unity to a bloc which from the start was heterogeneous and, as we shall see, politically pluralist. However, while it is true that the associated theses of industrialization and planning would seem to point towards non-antagonistic tasks, they only become meaningful, in fact, when referred to an ideological system governed by the ideas of nation and domestic market, which distinguished the nacionalistas from the cosmopolitas. Furthermore, insofar as the continuous enlargement of the domestic market was perceived as an economic and political target, its viability was held to be constrained by the existing pattern of income distribution. Thus, the underlying concern with 'more substantive' democracy appears as a basic ideological reference, typical of and exclusive to the nacionalistas. The economic dimension of this is visible both in the critical drive underlying the search for the structural causes of growing social inequalities, and in the theses put forward for redressing them. The latter took on the form of redistributive proposals of a Keynesian strain,

in which the intensive application of fiscal weapons would have a double purpose: to attract investments to the depressed regions and to redress, through a Tax Reform, the socially regressive effects of past inflationary waves.¹ Actually their preference for fiscal rather than monetary weapons may be linked to their concern with "substantive" democracy. They thought fiscal policy would mean more taxes on the rich whose consumption patterns favoured luxury imports. Reliance on monetary policy would, they thought, benefit the wealthy and not the poor and stifle the home market.

In short the ideological common denominator of the técnicos in question was moderate nationalism, along with economic and social reform; the growing intervention and rationalization of the State sector was assumed to be the necessary condition for achieving those targets, while comprehensive planning of the Brazilian economy was seen as its major instrument.

One representative member of the nacionalistas defined the 'minimum creed' and the dividing line between his group and the cosmopolitas as follows:

"... The reason for ECLA's having so much influence in Brazil is that a school of thought already existed here - that's why theirs had more influence in Brazil than anywhere else. ECLA's approach perfectly matched the existing trend in Brazil.

"Amongst the economists linked to the government, the prevailing line favoured nationalism and State control: the idea was that in Brazil everything had to go via the State. That's why the idea of the Plan went down so well - it meant consolidating the position of the State. As to the intention of carrying out social reforms, that was the idea in the mind of all the people called nacionalistas: there wasn't any brand of nationalism without a value judgement regarding society; it wasn't chauvinism or being against foreigners - that's something we've never had in Brazil. It was reformist: Brazil was thought to be an anachronistic country, a backward society (some would have gone further, others not so far). This is why we were seen as a left-wing trend. Among this group there was never anything like the right-wing nationalism so common in Europe and Argentina. The nation was not an abstraction. It stood for the people's living conditions. The assumption we did start from was that the indiscriminate action of foreign capital was predatory. But not because it was foreign - you know, the idea people had of the Light and Power Company.

"That is why we were in conflict with the cosmopolitas. In fact,

1. See specially BNDE-CEPAL, "Análise do Processo Inflacionário 110 no Apos Guerra", in Econômica Brasileira, Rio; Editora Nacional, 1956, vol. 1 n.4. pp. 25-39.

there were two main groups and they in turn were divided into subgroups. For example: we had a group from the Federation of Industry - we did not always see eye to eye but there was a close link. There was a communist group, but they were also linked with us, for consultation purposes: it was obvious which way the wind was blowing, there was not possibility of hostility. The main division really was in terms of two poles: ours, grouped round the BNDE, and the other around the Fundação Getúlio Vargas, the school of Bulhões and Denio Nogueira. The second group was made up of people in positions of control, but they never actually formed a critical mass at all levels: yes, they controlled key positions, they were always present. They were against the idea of planning, as they felt that it would increase State intervention ...they would also be against the Target Plan."

The equation strong State - project of national development - concern for a substantive democracy reappears in another account as the connecting link which overrode the internal differences among the técnicos nacionalistas

"Our group brought together people who worked in all the important centres of decision-making (SUMOC, BNDE, Bank of Brazil, etc.). They comprised a sizeable information vehicle. Behind all the differences, we had some basic convictions in common. There was also the thesis that the State must be strengthened as a decision-making centre in connection with a development project. Some wanted more development per se; others emphasised more the solution of social problems - Latini, for example, was prepared to collaborate with foreign capital if its presence meant setting up heavy industry; others were more radically against and preferred the more autarchic line. But there was certainly no-one of the Gudín of Bulhões type, linked to foreign capital because they didn't believe in the country as an entity. There was also an idea of nation linked to the idea of the people, as the country had to be changed - except that some believed that it would be changed by setting up the automobile industry (employment, etc.), whilst others wanted more decisive breaks."

*

The reference point of the cosmopolitas was the market - domestic and international - and not the nation. Their common denominator was the objective of fully integrating the country into the framework of international cooperation, a process which effectively took place with the advent of the Cold War: that is, a model of association between national and foreign capital, in which Brazil would be a major Latin American partner of the United States. The fact that they attributed a leading role to private enterprise, both domestic and foreign, should not obscure the differences between the two groups, the neo-liberals and the desenvolvimentistas. In the case of the former, their defense to the bitter end of private enterprise and the confidence they professed in the

restorative power of market laws were reflected in their traditionally vigorous opposition to planning and any form of dirigisme. Similarly, as carriers of liberal orthodoxy, the priority they attributed to a balanced budget and to the BOP equilibrium - their coherent defense of an IMF-type anti-inflationary strategy - was reflected in their opting for a slower rate of growth.¹

In the case of the cosmopolitas desenvolvimentistas, however, it was their opting for an accelerated growth strategy that determined a less doctrinal attitude as regards economic liberalism. Thus, like the nacionalistas, their project was also based on a major assumption regarding the enlargement and rationalization of the State sector. There was the obvious difference that in this case the function of interventionism would be to propel and direct a model of associated development in which the leading role was reserved for domestic and foreign private enterprise. This latter would also be a sine qua non (combined with an aggressive export policy) to overcome, under stable conditions, the foreign-exchange constraints to the country's development.²

The "monetarism" in the approach to inflation and external disequilibrium which undoubtedly came to unite the subgroups of this trend has led most authors to classify them indiscriminately as neo-liberals. Nevertheless, as we have shown in the previous chapter the modern wing of this group shared with the structuralists some analytical assumptions. Moreover, the fact that they favoured the use of monetary weapons in the IMF style should not obscure the equally important fact that the desenvolvimentistas of this trend were favourable to dirigisme and would later be the creators of the economic and political strategy which made the Target Plan feasible. The most conspicuous representatives of this subgroup were Roberto Campos and Lucas Lopes.³

-
1. See particularly Digesto Econômico, São Paulo, Federação do Comércio Estado de São Paulo, vs. issues; and Revista Brasileira de Economia, Rio, Fundação Getulio Vargas, vs. issues.
 2. Campos, R., Economia, Planejamento e Nacionalismo.
 3. By the mid fifties Rosenstein-Rodan's approach to development policies well known to the técnicos in question provided an analytical common-ground to the desenvolvimentistas of both camps.

For the desenvolvimentistas cosmopolitas the intervention of the State, aimed at propelling the industrialization process, was to take effect at three levels: 1) a policy of massive incentives to private enterprise and special favours to attract foreign capital, as a support to the opening up of new frontiers for investment; 2) the performance of entrepreneurial functions by the State in making high-risk investment; and 3) carrying out of institutional (administrative and financial) reforms, aimed at mobilizing and channelling both the human and financial resources to priority targets.

In fact, the unifying element between the two subgroups of cosmopolitas, in addition to the leading role reserved for private enterprise and the model of association with foreign capital, is a negative feature: the absence of a special concern with the existing pattern of income distribution. This is reflected in their adoption of a more flexible approach to internal and external disequilibria and, above all, in their greater readiness to accept a recessive and income-concentrating strategy to tackle inflation - especially wage restraint. In fact both Campos and Lopes were the main architects of the stabilization plan of 1958 - which we will discuss in the next chapter.

In short, it is possible to speak of técnicos desenvolvimentistas whenever the use of the term is restricted to the common denominator which effectively existed between the subgroups of both major blocs, i.e.: a strong State, leader in the accelerated growth process, in which intensive industrialization was the centrepiece; complementary reforms to the entrepreneurial function (planning, and financial and administrative reforms), as a pre-condition for the implementation of such a project.

One of the técnicos nacionalistas defined the affinities between the desenvolvimentistas of the two major groups as follows:

"During the period preceding the coup, Roberto Campos' group had much more affinity with ours in terms of their analyses than the Gudin-Bulhões-Denio Nogueira group. Years earlier, this latter group had criticized Campos for being interventionist. Campos was the modern wing of that group - he knew that no government could exist in an underdeveloped country without planning. The nature of the plan is another matter.

The old wing was in favour of laissez-faire; according to them, the Central Bank should be controlled by private banks (the generation before Campos). When they did finally unite, it was with reference to ends not means: open doors for foreign capital without discrimination. This is the true dividing line."

2. The nacionalistas: mode of insertion in the political system and patterns of action.

Two connected processes which were under way in the late forties and early fifties seem pertinent to explain the two major blocs into which the técnicos were divided: the crystallization of pressure groups and the consolidation of political parties. On the one hand, there was the organization of the principal political actors who were to comprise the key decision-making arenas in which the process of economic policy-making was carried out (entrepreneurs, military, técnicos) into pressure groups and representative bodies of professional (or class) interests. This took place in parallel with the consolidation of the political machinery on which was based the newly created party system governed by a political calculation of a more immediatist type - an electoral calculation - and whose smooth working was based on the revival of the clientelist politics typical of the First Republican Period (1889-1930).¹ These parties had to take into account the growing participation on the part of popular sectors in movements for demands of a political nature. However, this process of growing participation by the organized sectors of the working and middle class is a phenomenon to be counterposed, by the analyst of the 1945-1964 period, to the decreasing degree of representativity of the party system bequeathed by G. Vargas.²

From the viewpoint of this immediate political context, the técnicos

-
1. See Souza, M.C.C. de Souza, Estado e Partidos, pp. 105-139.
 2. For a discussion of this issue see Lafer, The Planning Process vol. 1, pp. 50-151.

nacionalistas can be located and the features that differentiated them from the cosmopolitas in general can be defined.

The great majority of técnicos nacionalistas were part of the technical staff of various policy-making agencies and acted as consultants to professional associations - the National Confederation of Industry (CNI) for example. As second-rank members of the decision-making hierarchy, therefore, they participated in the political decision-making system only as consultants and executives. They were concentrated in the BNDE, SUMOC and Bank of Brazil. They belonged to a relatively young age bracket, between 30 and 40. The senior representatives of this group, however, had begun their political career when participating, along with the military, in the decision-making processes which gave the Estado Novo a nationalist stamp - inter alia, the inauguration of the national steel industry.¹ In the early fifties, these senior members came to power as members of the Assessoria Econômica (an entirely nationalist staff) directly subordinated to Vargas: Rômulo de Almeida and Jesus Soares Pereira were the most conspicuous representatives of this 'old guard'.

One major feature of this group consists of the fact that their leading representatives were linked to a highly politicized, semi-formal association, the circle known as Clube dos Economistas. Their critical views on economic policy-making were systematically published in the periodical Econômica Brasileira.²

The criteria governing membership of the club, however informal, ensured absolute certainty of their commitment to shared ideological principles and analytical assumptions, in addition to technical experience. Such non-technical criteria, as we understand them, might be spelled out as follows: a broad

1. See Martins, Luciano, op.cit. pp. 155-266.

2. The editorial board of the Magazine is roughly composed by the same people who were affiliated to the CLUBE.

ideological affinity, based on their commitment both to a national project of development and to 'nationalism' in its newly acquired dimension - that is to say, as instrumental for channelling the rising social demands which were not absorbed by the party system; also, an approach to economic policy-making whose assumptions were openly antagonistic to the principles of neo-liberalism. Another shared feature, observable in the articles published in the Club's review, was the belief in the superiority of scientific thinking and in technical skill as a means of achieving an overall vision of the socio-economic system. While it is true that mastery of technical expertise appeared as the necessary condition for giving a long-run direction to the project of development they defended, this project, nevertheless, was clearly stated as an ideological option, in the sense that it was perceived as rooted in an alternative value system to other available ones, and one which preceded the choice of one economic theory (Keynesianism) over another than neo-classicism.¹

In short, it was a person's subscribing to this value system that could ensure quick recognition as 'one of ours', even in the case of those linked to the Club without directly taking part, such as, for example, the senior técnicos who directed the Economics Department of the professional association representing the industrial entrepreneurs the CNI.

These principles were reflected in a long-standing personal bond of intellectual friendship which had developed out of a shared tradition, transmitted by the senior members. Its cohesive power seemed in many circumstances more effective than the impersonal and somewhat loose solidarity

1. It should be recalled that in this instance as well the strong influence of Max Weber's thought on the relevant técnicos seems evident to us. The most conspicuous case is Furtado's - a fact which we tried to convey in the quotations used below, and as an epigraph to this section. The same pattern reccurs, however, in some other articles published in Econômica Brasileira. See, Paulo Lira, "A Missão do Economista", Econômica Brasileira vol. 1, n.1. 1955.

usually conveyed by the expression esprit de corps. For, in this latter case, solidarity would stem merely from their belonging to the same professional group.

Similarly, one important function of this extra-institutional association is that in many circumstances the group was prepared to act as the best and most reliable channel for ensuring a rapid flow of technical information, reliability as to accuracy, secrecy when needed and supporting reciprocity. Conversely, this was also a semi-organized hedge against interference, sabotage and withholding of information by the members of the opposite group. When some of the members came to power, the choice of collaborators was also facilitated either by direct membership of the Club or by the above-mentioned criteria for recognition. Suffice it to mention as an illustration how Furtado, one of the founder members of the Club, described this particular function we are concerned with:

"There was no chance of political infighting taking place among us. Our Club wasn't like ISEB, (Instituto social de Estudos Brasileiros) which had a partisan project and was involved in direct political action. Not in our case - our concern was developing an influential school of thought, but whether or not somebody left to join one party or another didn't matter. That's why there was no rivalry or infighting. I don't wish to exaggerate the importance of the group around the Review and the Club, but there really was a link: people exchanged information systematically - when I went to work at SUDENE, everyone supported me and gave spontaneous collaboration, which enormously helped me in my work there.

"In this sense, what existed in Brazil was a whole non-institutionalized political movement with tremendous influence. In the big campaigns (remember Petrobras, Roboré, Light and Power), it appeared in the form of a school of thought, of theses, but not of a movement based on political parties.

"... I was the most conspicuous representative of the group. Later on, I became a government minister, even without ever having joined a political party.....How could I have drawn up the Three-Year Plan in three months without all that...people supporting me from all sides, people from a number of generations, without any institutional support properly speaking. I brought all these people together... and chose all those who were interested in collaborating, with perfectly controlled information and no infiltration by outsiders. Any institution which had already been set up and was under full steam would have contained people prepared to put on the brakes, create obstacles, even sabotage. I could not afford to run a single risk. All the people who collaborated with me were from this group: Yes, today most of them are still in government; they haven't left to work for

private enterprise or set themselves up in business. BNDE, SUMOC were institutions we have under our control. I don't think they've changed their ideas - nobody changes after they're 25...Well, I'm talking about their value system ... unless they just haven't got one, in which case they'll go whichever way the wind goes."

The Club's second function may be classified as 'para-academic'. This is because the Club was conceived as the embryo of a school of thought, in both senses of the expression: as a centre for the articulation of intellectual debate on the relevant literature in economics and related social sciences, on the one hand; and, on the other, as a transmitter of the scientific standards which were to regulate systematic research on the key issues of the nation's economic life.

In addition, the members of the Club openly or tacitly attempted to take a stand with regard to the question of what to expect from economics as a profession in a country like Brazil. It was imperative to find a coherent answer given the conjuncture, in which the prestige of the economist - the new type of technician which had emerged since the post-war years - was being tested by the pressures of a "seller's market". In short, there was an intersection of multiple and contradictory expectations on the part of the potential 'buyers' as to the specific function of this new social actor.¹

This second function becomes meaningful only if certain additional aspects of the social context are taken into account. In the first place, there was no firmly established academic tradition in Rio de Janeiro, as compared to the activities which had been developed at the University of São Paulo since before the Estado Novo. Secondly, academic teaching in the field of economics, particularly in Rio, was under the control of the 'old guard' belonging to the opposing group and neo-classical in orientation. Finally, most economists (nacionalistas or not) came from depressed regions (the Northeast), or else very new ones (Mato Grosso, Goiás), where academic standards were acknowledged

1. See the speech by Diogo Gaspar to graduate students in economics, as to the role of the economist in underdeveloped countries, "O Economista e o Desenvolvimento Econômico", *Econômica Brasileira*, vol. 3, n. 1-2, 1955.

to be very low.¹

Thus, the Club as the embryo of a school of thought began to attract to its gravitational sphere the técnicos nacionalistas, who would otherwise have remained scattered throughout their respective professional sectors. This particular function, therefore, might be interpreted as a non-institutionalized device to make up for the existing diffusion of both intellectual and technical competence which prevailed before Kubitschek's administration.

The most interesting role of the Club, however was as a resource for compensating for the state of ideological (and political) dispersion in which the adepts of nationalism found themselves. From the start, it had been conceived as a 'political club' (in the manner of the French clubs), whose dominant function would be to serve as a 'pool of political resources'. Its being a school of thought is thus indissociable from a pattern of indirect political action, by means of which the técnicos sought to enter into alliances with groups and sectors outside and/or on the fringe of the decision-making arenas proper. This pattern of action was comprised of the formulation of theses, the systematic organization of information and direct assistance to other political actors committed to nationalism. One of our interviewees, described the Club as a way of reacting to the conjuncture which was typical of the Left

Party politics in Brazil had no alternative but to be clientelistic ...Such a heterogeneous country. Our kind of action was incompatible with the action of clientelism. Our club was more in line with the French political clubs - this kind can have enormous influence...Freemasonry always resembled this kind of thing, only it was secret. But what mattered was that the people involved had a particular direction. Something of the kind we had too. The Brazilian Left was institutionalized in this way, as school of thought and pressure groups... Well, yes, the Communist Party was around too, but they were of a different breed, as were the Engineers' Club and the Military Club. The common denominator was a certain level of competence, people with an interest in studying. This can be understood as well as a result of the lack of a real university, unlike São Paulo, where the University absorbed people's energy while at the same time isolating them...Not so with us - we were present in all the decision-making centres in Rio de Janeiro. Our University was

1. This argument was suggested by most of our interviewees and was confirmed by our assessment of the origin of the 50 members of the Clube. The overwhelming majority among them came from the above mentioned regions, and some from Rio.

culturally so poor...(in contrast with the twenties, when it had been much more active). As economists had acquired great prestige and the School of Economics was dominated by Gudin, we joined forces outside.

Yet I reiterate the fact that all this also had something to do with the poverty of the university environment, with the flourishing of a certain type of economist. Yes, there was the Order of Economists, but it too was at a very low level. And then there was us: we represented a true intellectual elite (such as the Rio Law School, or the Engineers' Club in the past...), close to the decision-making centres, but also representing a generation which belonged to a middle class undergoing transformation."

The técnicos appear in their full dimension as the most qualified producers of ideology if it is taken into account that they did not derive their authority with regard to the other political actors from being carriers of a politically partisan project. On the contrary, what differentiated them from other sectors of the intellectual elite (such as the group around the ISEB) was that they formulated 'scientifically grounded' guidelines for the realization of a project of development into which the 'people' was to be actively integrated, as one of the principal beneficiaries (along with the 'national entrepreneurial class').

The pattern of participation in political life through freelance attachments to relevant parties and to pressure groups, as well as involvement in popular campaigns - in short, on the fringe of institutionalized life - was a rather recent phenomenon. Opportunities of participating in political life had only become possible during the second Vargas administration, since it was only then that the President had gone beyond invoking the role of spokesman for the people' to directly seeking support from mass movements as a form of self-legitimization.

The second Vargas' administration produced a significant change in the overall criteria of legitimacy which had prevailed until then. What concerns us here is how this change was refracted in the perception which the técnicos then acquired of their new function within the political system. As will be seen in the following quotations, their form of legitimacy as "producers of ideology" was to become gradually explicit. More important still, it was

closely linked to (rather than dissociated from) their technical skill, on the one hand, and, on the other, the performance of governing functions as policy makers. The expression 'técnicos em fins' recurrently used by them is symptomatic of this newly self-appointed function. It thus seemed to preclude the adoption of a strictly technocratic criterion of derivation of authority. On the other hand, it was an indication of a self-image wherein strong ethical overtones regarding 'conventional politics' were combined with the awareness of their potential political strength as "men who were linked to the State". In short, the role of 'técnicos em fins' was a necessary one, which had to be performed given the ideology-deprived political actors and/or institutions, particularly the party system. Furtado answered one question as follows:

"No, no, don't say technocrats...yes, technicians (técnicos) would be right. 'Technocrats' didn't exist in those days... It's a new phenomenon of the last few years...It was only during the fifties (but also not during Getulio's first term) that 'técnicos em fins' were produced...The idea that Reason has its own ends, which comes from Kant, is a true one. The fact that man has objectives cannot be dissociated from his ability to reason. That's why Weber's distinction is such a good one between the rationality of ends and of means ... "We can here argue about our right to a second bottle of wine. But there cannot be any technical controversy about what the minimum standard of living should be for a man to be able to be a man."

Later on, in a different context, their political position (value system) appears as an indispensable criterion for identification at that time, and one which prevailed in the universe of the técnicos in general, as a pre-condition for obtaining recognition inter pares, in addition to the possession of good skills.

"What did not exist at that time was the figure of the technocrat, someone who imagined he could have influence on the basis of technical criteria. When anyone said he was a técnico, he meant he was not a member of any party...which did not mean however that he wasn't connected to any or that he didn't have political ideas. At the outset, being a técnico meant not being either in the UDN or the PSD or the PTB. Out of this whole group, I never met anyone who was thinking in terms of being apolitical, of working indifferently for any government...On the contrary, there was a high level of political mobilization in all the technical agencies of the government. This was not only accepted but was in fact a requirement, because if anyone did happen to say they didn't

have a political position, they wouldn't have had currency, because they wouldn't be identifiable.

"That's the Brazilian political tradition...The political system was unrepresentative both of the people and of the most sophisticated sector of 'civil society'. There was no tradition - unlike in France - of the 'political Club', which gives backing to a political party...That comes from the French Revolution. To some extent, the Clube Militar played this role in Brazil. The truth is that there was little sophistication in the Brazilian political system; most of the people who had a lot of authority were beyond the pale of the conventional system, but very often they did have influence over and links with the system, as freelancers."

Another interviewee, whose political position was different from Furtado's, confirmed the same approach to the function of the técnicos.

"The idea people have today that they had anything to do with technocrats is an illusion: in fact, this idea corresponds to the Weberian bureaucrat, who only has an instrumental rationality - this didn't exist in either of the two groups. What there was though is the idea that politics is for another kind of person who is prepared to take on another kind of commitment or do deals. These people didn't need to do that, they were too competent. All the members of our Club were looked on as being left-wing, because they were involved in politics. Sometimes they were punished. Once at the Fundação Getúlio Vargas there was a purge because of its political line against foreign capital...There wasn't a group of technocrats, but the funny thing is that these people in Brazil had a link with the State which they thought was essential: if you were against the State, you were against the people, since there were no parties with the ability to defend the people, so it would have to be the State. The idea was to take part in public life via the State."

And the following is a good example of the general feeling among the técnicos concerning the degree of political permissiveness established under the Vargas regime, and prolonged and reiterated by the administration of Kubitschek:

"What most attracts attention is that those people were able to have such clearly defined political opinions, criticize the Government so directly and in writing, and yet suffer no consequences of any kind at the level of their work. (Technocrats are what exist nowadays - some people wanted to re-issue the review but orders from above said 'No political opinions'.)

"The criticisms we made of the government and of its political positions were very severe and precise and yet the authors were civil servants: there was no evidence that this might lead to any problems for anybody. The Review only published serious stuff, but the groups belonged to the State, so it was an internal critique. The Review was so important that the American Embassy had five subscriptions; it was closely followed...There was no self-censorship...For all these reasons, the concept of 'technocrat' doesn't apply to any of us then. After 1953 but still during

the period of the Review and the Club, Furtado was a leading officer of the BNDE-ECLA group. Nobody refrained from subscribing for fear of reprisals..."

Finally, the expression "técnicos em fins" reappears not only as referring to a recent phenomenon, but as a reference to their being producers of ideology in the strongest sense of the term: that is, leading agents in the formulation and distribution of values to a nation which was disarticulated and divided by regionalism, and whose cohesion had only been ensured until then by the tradition of a centralising State, rather than - as would have been desirable - by an ideology which could give "social substance" to the abstract idea of nation.

"This enormous influence on the part of a group whose technical level was high was part and parcel of a tradition which dates back to the School of Mining, to the time of Calógeras and Vieira Souto, and this idea of the nation. The fact is that Brazil's being so disarticulated and regionalist has to do with the close connection between the idea of the national reality and the presence of the State. This dates back to before Getulio therefore. The connection was only really made effective during the second Vargas administration, since during the first the State was a mere system of control - his business was to consolidate the central government by linking up with local interests, without any substantive idea of nation. (I don't deny its centralizing orientation.) Only during the second Vargas government, under the influence of the técnicos (people of a different kind)...The truth is that Getulio believed in the técnicos; he listened to them if necessary, but he himself had no project. He was only concerned with the means. Before 1950, it was a total bureaucracy in the Weberian sense, without any concern for where Brazil was going. There were no 'tecnicos em fins.'"

*

The pattern of indirect action adopted by the técnicos becomes meaningful, of course, in the context of the system of alliances of which they sought to become part. It could be said that the técnicos, despite basic differences commented on below, reproduce the same pattern as that found by Luciano Martins amongst the military of the same tendency. That is, they sought to set up alliances with those actors who had been left out of the key decision-making arenas, as regards economic policy-making. This was a reaction to the redistribution of political resources which was taking place in tandem with internal redemocratization and with the new pattern of international

cooperation still emerging at that time.¹

However, there are a number of characteristics which give a special cast to the actors we are concerned with in comparison with the military:

1) their deliberately non-partisan project, limited to acting as a 'school of thought with influence', on the one hand, within the Executive, through the internal debate on topical policy issues; and on the other as a source of technical advice from which pressure groups as well as parties and popular movements could draw their proposals. This project represented a 'hedge' against their possible involvement as a group in direct political action and, obviously, against the rivalries and infighting which were then splitting the Clube Militar. 2) They thus stood in contrast with the nacionalistas military in another respect: the latter, upon the downfall of the Estado Novo, were excluded from the decision-making system or else obliged to share power with professional politicians and entrepreneurs; they thereupon organized themselves as a pressure group, directly responsible for popular campaigns and, still more important, aligned with particular party-political positions the cosmopolitas with the UDN and the nacionalistas with the PTB or even the PCB. 3) Finally, the term técnico, used indiscriminately for the thirties and fifties alike, might obscure certain important differences. First there was a change in the very criteria of legitimacy which prevailed within the universe of the State bureaucracy: the required recognition inter pares of professional and specialized or academic qualifications. This undoubtedly gave the economists higher credentials for proposing and giving 'scientific' grounds for a project of development - hence the hegemonic role played by the leading representatives of ECLA's doctrine. Second, notwithstanding the fact that they constituted a true intellectual elite, like the técnicos of earlier days (from the Rio Law School or the Engineers), they were, comparatively

1. Luciano Martins, Pouvoir et Développement, pp. 309-347.

speaking, less elitist. This can be explained by the fact that, the growth in size of the State, and the proliferation of job opportunities enabled the following generation of técnicos to absorb individuals from other sectors of the middle class. As one of our interviewees put it:

"not as elitist as the engineers of the past who were adepts of nationalism, since we were part and parcel of a middle class undergoing transformation and much more dynamic, associated with a much richer idea of the nation; another historical moment, which made it possible to carry on politics outside the usual channels."

In short, what made them different from the nationalist military involved in direct political action and in open struggle for the control of the Clube Militar, against the cosmopolitas, was that they had opted for a more limited scope of action, that of being producers of ideology; and that they attempted, from within the State apparatus, to influence both public opinion and the State bureaucracy. This makes it impossible to classify them as a pressure group, as it is through their dual nature as técnicos and members of the establishment that they obtained their legitimacy.

We now turn to point out the links between this group of técnicos and other political actors. Most of the nacionalistas were spread through DASP, the Bank of Brazil and SUMOC (where they had partial control) and, following the setting up of BNDE, began to concentrate in that institution as a part of the second line in the decision-making hierarchy. During the Kubitschick period, however, when the BNDE-ECLA working group was set up, under Furtado's direction, the nacionalistas came to hold power within BNDE, the first official investment bank, until then controlled by the desenvolvimentistas-cosmopolitas.

There was a subgroup, only partially linked to the Clube dos Economistas but recognized as 'one of ours', and managing the Economics Department of the National Confederation of Industries; they published their positions, which

were in many ways 'structuralist', in the Revista Desenvolvimento e Conjuntura, directed specifically at entrepreneurs. The nacionalista group, represented by the 'seniors' Romulo de Almeida and Jesus Soares Pereira at the invitation of the entrepreneur R. Simonsen, seems to indicate an 'alliance' between técnicos and entrepreneurs of a particular type: in other words, this professional association was then predominantly representative of the interests of 'traditional' industrialists (non-durables), who defended the expansion of the home market and a non-recessive strategy to tackle inflation, and thus took the relevant structuralist theses to heart.¹

The group's pluralistic approach to the party system, as well as their characteristic form of action - outside the space of party politics -, are reflected in their informal links with the parties. Freelance attachments were common practice, since the members of the Club were regarded as a source of technical advice on which the professional politicians - from the PTB to the Left - could draw for their proposals, both as weapons in the parliamentary struggle and in the form of theses in popular campaigns, against the 'Light and Power' monopoly or over the issue of Roboré (a territory which Brazil disputed with Bolivia), or again in support of the creation of Petrobrás.

Later on, during the Kubitschek period, members of the parliamentary parties (some from the PSD and PTB, others from the UDN and PDC) set up the coalition known as Frente Parlamentar Nacionalista - the first ideological nucleus of some consistency inside Congress - and it was at this time that the links became closer still, as we shall see in a later extract from one of our interviews. There were also links with journalists: during the setting up of SUDENE under Kubitschek, they launched a systematic campaign

1. This is not to say, however, that the industrial entrepreneurs adopted a structuralist approach; we mean only that some structuralists thesis were "taken to heart" by them whenever stabilization action involved a tight money policy (and in some individual cases wage-restraint). The episodes associated with the stabilization Plan of Roberto Campos in 1958 are a case in point which we will briefly comment on in chapter IV.

in favour of this agency, the first official body aimed at developing the North-East (the most conspicuous case is that of Callado at the Jornal do Brasil). As one of our interviewees put it:

"...the 'technocratic' environment that I knew so well was one of the country's most politicized sectors...In fact, it included the leaders of all the parties and all the major groups, in the form of advisory staff or éminences grises,...We had a review with a perfectly clear-cut line: against indiscriminate entry of foreign capital, for the defense of the State. We had a debating Club. The cosmopolitas disagreed with us, but they were just as political. Amongst us there were such people as Jesus Soares Pereira, Sydney Latini (the man from the Executive Groups), Pegourier from the Bank of Brazil, people from SUMOC..., Americo Barbosa (who had waged a tremendous battle against 'Light and Power'). There was also younger blood, such as Juvenal (BNDE), Pelucio, and some fifty other names more or less.

"These people were all participating in politics and generally linked to centre or left-wing parties. The Review stopped circulating in about 1957; that is, it came out but only sporadically. When we brought out the Three-Year Plan, there were people who were already against it for personal reasons (being left out) or ideological ones (some actually more radical). In addition, as we began to take part in the power system, things began to change. When I went to work at SUDENE (1959), everyone supported that, but as to the Plan, they didn't, which is to be expected."

Finally, during the Kubitschek administration, the nacionalistas (Inácio Rangel, Furtado) took office as advisers, along with such desenvolvimentistas cosmopolitas as Campos, on the Consultative Council of the Instituto Superior de Estudos Brasileiros (ISEB), a partisan body made up of intellectuals and professional politicians.

The fact that a representative group of técnicos could organize themselves in a politically oriented circle, ideologically antagonistic to its opposite number within the State apparatus and parallel to the party system, has - as we have already mentioned - been unduly neglected hitherto. If one is to come to terms with the question of the place and function of the técnicos in the Brazilian political system, the very existence of the above mentioned group poses a number of problems. First, a shared economic ideology

antagonistic to the principles of IMF liberalism (espoused by the Gudin-Bulhões group) does not account for the emergence and widespread influence (let alone the tacit recognition by other sectors of the Brazilian political elite) of such an extra-institutional grouping among the holders of key offices in public service. Conversely, if their ideology is to be approached as being a token of a potentially active political stance on vital economic issues, it remains to explain a still more striking fact: the pluriparty system's inability, under the democratic regime, to absorb directly (whichever side of the political spectrum is looked at) one of the most politicized and sophisticated sectors of Brazilian society. This question in turn leads to the more topical one concerning the representativity of the Brazilian party system bequeathed by Vargas in 1945.

It is beyond the scope of this study to provide answers to these problems. In the light of the information gleaned from our interviewees, some evidence can be offered as to certain significant political attitudes on the part of the técnicos nacionalistas. Such evidence is relevant to the extent that: a) it might suggest hypotheses regarding the ambiguous pattern of interaction between the técnicos and the party system; and b) some light may be thrown on the political function they attributed to the shared ideology which, as a cementing factor, underlied their indirect political action, under the aegis of the Clube dos Economistas and the Review.

These attitudes can better be understood in the light of the relative rigidity of the party system bequeathed by Vargas, such as it was experienced by the técnicos (excluding both the 'people' and significant sectors of the political elite). Caught between elitism and clientelism - both ethically undesirable - they saw their only alternative course of action ("our type of action was incompatible with clientilistic action") to be the re-establishment of a non-conventional political arena directly converging with the State apparatus.

Furthermore, the apparently resigned acceptance of the function of being

a 'pool' or 'reservoir' of political resources was also not devoid of ambiguity, for such a characteristic might represent a source of political power stemming from its 'supra-party' nature, without depriving its members of indirect intervention in the party arena.

One typical attitude is illustrated by the following extract:

"In a country where the political horizon was limited, the capacity for political action was also limited. Where the parties were either excessively similar (PSD, UDN) or too oriented towards clientelism..., the possibility of carrying on politics was pre-determined. It was common for people of a more sophisticated level to refuse to be hemmed in by this political horizon, or to aim to carry on political activity outside it. Among such people were the técnicos. If in Brazil there had been an open political horizon, as there was in Europe, we would all have joined some party. But as they wanted to stick everyone into the UDN, PSD or PTB, which smacked of either callous conservatism or unbridled clientelism, there were a lot of people with a clear-cut ideological line who had no choice but to stay out. They had political convictions but no niche in the political parties. They stayed on the outside, almost always in alliances to suit the moment..., giving opinions, orienting the parties. These people were very active in Congress, pushing things one way or the other... They had a lot of influence - for example, the Frente Parlamentar Nacionalista wouldn't move a muscle without consulting these people first. They were the ones behind the debate on petroleum in the Chamber of Deputies and the fight over Roboré."

This activity outside the space of party politics - i.e. "outside the conventional political arena" - clearly arose from an ambiguous attitude towards the typical pattern of action of the professional politicians in contrast with the "distinterested action" of the técnicos. Yet it also indicates a critical distance with regard to the manipulative aspect of 'populism'.

"I would say that conventional (party) politics and non-conventional politics - a much wider arena which sometimes included the parties and sometimes didn't - intersected. These people depended for their living on the Executive, whereas those in the conventional arena were directly linked to the moneyed and ruling classes - that was clear in Brazil.

"Non-conventional arena: this meant the professionals who exerted influence as a result of their own competence (which does not mean there were no technically competent politicians). Conventional politics in Brazil meant having a clientele - the politics of favours: and this was only possible when linked to the traditional parties or to all out populism. On the other hand, professionals and State employees (once in a while a deputy came up) carried on politics with the aim of influencing public opinion. They comprised a highly influential area, because coming from the Executive major

initiatives had immediate repercussions: all the parties had their contacts with it and drew on it. The major parties made consultations first when they wanted to launch a slogan - it was a kind of pool, within which there were a number of tendencies: one of the main ones was the nacionalistas'."

Thus, while it is possible, on the one hand, to register misgivings with regard to the professional politicians - one of the typical features of the technocratic value system¹ - on the other hand, there was no rejection of political intervention in itself, but rather a demand for an 'autonomous space' outside as much as inside the key decision-making arenas: but not exclusively inside, as a purely technocratic indoctrination would require.

While it is true, then, that ethical overtones prevail as a justification underlying a certain aloofness towards generalized clientelistic action, this does not reflect an apolitical attitude. In fact, it shows a critical impulse with regard to the manipulative practice of the populists, seen as being just as elitist and as based on the patronage system as the other, conservative, parties. This was seen as ethically undesirable because the "politics of favours" perpetuated the rule of arbitrariness and thus postponed even further the advent of the rule of Reason. All of this was of course a form of self-legitimization, but nonetheless a 'realistic' assessment of the prevailing state of affairs.

"...For all these reasons, I must insist on this division of areas as conventional and non-conventional - this can all be explained by the backwardness of the Brazilian political system with regard to civil society. Although it wasn't exactly elitist but rather exclusive (even excluding the elite itself), in the following sense: even in the case of the PTB which was not elitist, it was nevertheless so brazenly clientelistic that a person of the kind I'm referring to would be ashamed of saying he was in the PTB. Things were like this: a decent fellow could never dream of joining Ademar de Barros's party (PSP) or, to start with, the PTB. Later on, though, some people did join the PTB... well, some of them were in the PCB."

It was against the allegedly popular parties' inaction with regard to institutionalizing rising social demands that the técnicos directed their

1. See, Meynaud, *La Technocratie*, pp. 50-102, and Carlos E. Martins, Tecnocracia E Capitalismo, pp. 20-50.

critiques, and it was because of the same inaction that they sought legitimacy for their own roles as political agents. By contrast, it was on the basis of a 'real' experience - that of their integration within the Executive sphere (the real centre of effective decision-making and relatively autonomous) - and also through being 'competent professionals' who were recruited using meritocratic criteria, that they derived the ethical warranty for their 'disinterested action' on behalf of the people.

In this sense, the fact that they stood for an alternative political practice, characterized by a strong critical impulse towards the existing political institutions, makes it appropriate to dub them 'reformers' in the strong sense of the term, rather than technocrats. For the latter, holding power would be legitimated exclusively owing to the superiority of technical and scientific knowledge, neutral and untrammelled by transforming impulses (of an essentially politico-ideological nature).

With regard to such attitudes and experiences, it is not surprising that the ideological outcome was that the State emerged as the locus from which it was possible to make the best judgement of (and possible amendments to) deviations from the 'ideal norm' for truly democratic political institutions, and particularly for an effectively representative party system. For 'underdevelopment' was felt to be an undesirable syndrome in which social and political backwardness played as decisive a role as economic constraints, excluding most of the population from the benefits of development'.¹

This conclusion, however, makes it obligatory to register another kind of ambiguity which will be relevant to our analysis later on. The preference for the non-conventional arena, in the name of a reformist action which was 'disinterested' because not governed by immediatist electoral calculations, was combined with the real situation enjoyed by the técnicos, that of being participants in the decision-making system. Are we not thus only a step away

1. This sentence belongs to the opening pages of the TYP.

from a kind of demand - however implicit - cited by the relevant actors when they identify themselves as "the best available spokesmen of the people", thus confirming the elitist pattern, typical of late-latecomers, whereby reform from above tends to prevail? The best way to answer this question will be, of course, to observe the actors 'on the job', and this is the object of the final chapters. However we believe that the evidences provided above allow for some additional concluding remarks concerning the técnicos mode of perception of their role and function in the political system.

One of our interviewees' abovementioned comments - "even the PTB carried on so brazen a form of clientelism that ... any decent person ... was ashamed ... " - seems to us of topical relevance. In that it enables us to transpose to the political realm Hirschman's dictum (in "A Bias for Hope "), coined in the early sixties, when he sought to uncover the secret meaning of the planning drive which was typical of the structuralists and was at once to give the ECLA doctrine its undeniably "utopian ring", both in Chile and - even more appropriately - in Brazil. To paraphrase Hirschman: the preference for non-conventional political practice, whose influence radiated out from a point located within the State apparatus - the warranty of its effectiveness - can be taken as a "subtle protest" (but not at all pathetic) against the present state of affairs, against the failure of most of the professional politicians - whether conservatives or populists - "ever to see the handwriting on the wall". Although this very metaphor is hardly appropriate in a country where, according to UNESCO, in the early 1960's, 50-6% of the population fifteen years and older were illiterate.¹

3. Industrialization and planning: the conversion of economic goals into mechanisms for the legitimization of the regime under Kubitschek: 1956-1960.

We now turn to a brief analysis of the political process which led to

1. Brazil Election Fact Book n.2 (September 1965), ed. Charles Daugherty, James Rowe, Ronald Schneider, pp. 19 and 21.

the building up of the observed convergence between the técnicos desenvolvimentistas of the two blocks under Kubitschek's administration. This is because it remains to account for an apparent inconsistency already pointed out in the introduction to this section. It may be formulated as follows: how was it possible for the técnicos nacionalistas not only to support Kubitschek's government, but also, apparently, to provide some ideological support for policy choices whose tendency and outcome partly contradicted their value system?

From the mid-50s on the resumption of the drive toward industrialization was made possible by an increasing reliance on foreign direct investment and suppliers' credit, that is to say at a twofold cost. By resorting to escalating indebtedness, Brazil was drawing heavily upon her future, and, more significantly, the process of internationalization of a highly protected internal market - inseparable from the new pattern of capital accumulation - re-inforced the condition of economic dependence.

Such policy choices may of course be approached as compromise solutions on the part of a newly elected government, in response to the changing political and economic circumstances, both national and international, which we have explored in the previous chapter. Those general circumstances also explain why the modern wing of the cosmopolitas, the Lucas Lopes - Roberto Campos group - gained the upper hand in the struggle for power and became the main architects of the new economic strategy.¹ However, to our view, Kubitschek's commitment with fast industrialization on one hand and on the other the nacionalistas realization that a national project of development was not viable were necessary but not sufficient conditions for the observed process of convergence.

In what follows we will set out to show that the assumption of power

1. Both had worked with Kubitschek in the early 1950s, when he was governor of Minas Gerais.

by Kubitschek gave new impetus to the process of planning in a "nationalist" but looser sense. Although underlying the process of fast economic growth some significant economic and political stresses made themselves felt by 1959 (see next chapter), at the outset two factors directly contributed for Kubitschek's achievement of holding together the desenvolvimentistas of the two camps. The first was the partial rationalization of the State apparatus implemented through a conflict minimizing approach to administrative reform. Namely, the creation of an articulated body of planning agencies superimposed on the traditional administrative system, the "parallel administration" - staffed by the nacionalistas as well as by the cosmopolitas. The second was Kubitschek's personal conciliatory style which maximized the effects of the political strategy of consensus then adopted and which enabled the President to convert economic goals such as industrialization and planning into mechanisms of legitimization of the regime.¹

We shall start with this second factor as it shows itself clearly in the way the Target Plan was presented by Kubitschek's both to Congress and to public opinion. In his campaign as a candidate backed by the restored PSD-PTB coalition, and in his first Presidential Address to Congress, Kubitschek repeatedly stressed his commitment to development through planning. The following themes emerged.²

Firstly, his diagnosis of what he called "the crisis of the transitional phase" was based upon the assumption that "the Brazilian problem was one of growth and not of stability";³ one could not apply "remedies for old age to

-
1. The analysis which follows is the result of the application to the universe of the técnicos of the ideas developed by Celso Lafer on a) the use of the Plan as a political instrument, and b) the impact of populism on Kubitschek's political strategy. See Lafer, pp. 22-160.
 2. Juscelino Kubitschek de Oliveira, Diretrizes Gerais do Plano Nacional de Desenvolvimento (Belo Horizonte, Livraria Oscar Nicolai, 1955), pp. 13, 15, and 23, cited in Lafer; and Juscelino Kubitschek de Oliveira, Mensagem ao Congresso Nacional (Rio de Janeiro, Imprensa Nacional, 1956).
 3. Kubitschek, Mensagem., p.273.

solve the crisis of puberty". Secondly, development through planning was presented for the first time in Brazilian history as an official solution to a situation of both political and economic uncertainty, since it was geared to making compatible the aspirations of the Brazilian elite and the growing demands of the urban masses. Thus although he held that the solution to the crisis was the adoption of a vigorous industrialization policy predicated upon "continuous and efficient state intervention in the economy", he skilfully and repeatedly pointed to the limits and the ultimate aims of planning. On the one hand, the Plan was described modestly as methodical programming of government measures, the setting up of targets for private enterprises, and the use of the state as a "manipulator of incentives; by that token, it should not be seen as "a controller of decisions for an absorbing Leviathan".¹ On the other hand, the ultimate aim of the Plan was to raise the living standards of the population through the multiplication of job opportunities, and was not to be conducted "solely by means of the sacrifices of the working class, but on the contrary, by transforming the working class into direct participants in the benefits of progress".²

In short, as Lafer points out, the decision to plan itself, as much as the Plan, deserves to be explored in its political dimensions, as a "political tool to reduce uncertainty" in a two-fold sense: it was instrumental in presenting as surmountable the objective problems of policy-making in Brazil at that moment, and it provided a "realistic" point of departure for Kubitschek's political scheme of adjusting mass and elite political aspirations to each other, as he tried to meet some of the demands of the mobilized masses while assuring the elite of a conflict-minimizing approach to policy making.

This presentation of the scope and aims of the Plan was re-asserted in his first Address to Congress in March 1956, and was an effective mechanism

1. Kubitschek, Directrizes..., pp. 27 and 274-5, cited in Lafer.

2. Kubitschek, Mensagem..., p.274.

of regime legitimation. This was so in the sense that electoral calculation demanded growing attentiveness to the demands of the urban popular sectors mobilized by earlier populist policies, and more particularly in the sense that growth appeared as a pre-condition for a re-assertion of the pattern of class collaboration threatened by earlier events, and a broadening of the scope of Brazilian democracy.¹

This was consistent with the political ideology of the nacionalistas, as we showed in the previous section. In fact eight years later a sub-group of técnicos nacionalistas, once in power and confronted with vital economic issues, would resort to a similar conflict-minimizing approach to planning activity and institutional reforms; these points will be taken up in subsequent chapters.

One may argue however that the form of presentation of the general aims and the scope of the Plan, used as a political weapon in conditions of increasing electoral competition,² is a rather poor guide to the real intentions of its proponents as regarded future policy choices. It does however provide a first approximation for assessing the nature of the political commitments given by the elected President and his advisers. Such commitments were bound to affect the policy guidelines and the planning process itself, placing certain bounds

-
- 1. It should be recalled that during the interim government of Café Filho (1954-1956) between the suicide of Vargas and the installatio of Kubitschek, a new experiment with orthodox stabilization policy was attempted, under the direction of Gudin, the then Minister of Finance. The failure of the experiment, culminating in the dismissal of Gudin, helped reinforce the conviction of the younger técnicos cosmopolitas that a conventional stabilization programme was not politically viable.
 - 2. The table below suggests that the degree of competitiveness of Presidential elections reached in peak in the period discussed here:

<u>Presidential Voting Totals, 1945-1960</u>			
President	Year	Total Vote	% to winning candidate
Dutra	1945	3,251,507	55.3%
Vargas	1950	3,849,040	48.7%
Kubitschek	1955	3,077,411	35.6%
Quadros	1960	5,636,623	48.3%

Source: Brazilian Election Factbook, Table 1, pp. 56-7; cited in Lafer.

upon the range of freedom enjoyed by planners - a point explored in the next chapter.

We can now turn to the planning process as an additional mechanism for building up consensus among the técnicos. As Kubitschek took office the key issue, in the words of the Target Plan, became "one of how the political imperatives resulting from the electoral campaign pledge to raise the living standards of the population" would be translated into concrete guidelines for planning activity.¹

To judge from the abundant information provided by Lafer, it is clear that the major political parties played no significant part in the process of conversion into policies of the diffuse demands of the diverse socio-economic sectors which legitimized the Kubitschek government through the ballot box. Thus, as Lafer notes, "the concept and criteria needed to convert into policies the political requirement of adjusting mass-elite aspirations ... came from other jurisdictions of the political system".² These "jurisdictions" were in plain terms the policy-making agencies existing at the time, such as BNDE, and more especially BNDE-CEPAL, SUMOC, and the Banco do Brasil and/or groups of técnicos within other bodies charged with making and operating economic policy, mostly composed of individuals who had worked on the Abbink mission, the Mixed Commission, or, to a lesser extent, the Assessoria Econômica of Vargas. This is reflected not only in the composition of the bodies recently created by Kubitschek, but also in the concepts which regulated investment policy.

Thus the técnicos who staffed the highest planning agency of the period, the National Development Council, created on the day following Kubitschek's inauguration, had mostly been in the Mixed Commission: this was true of the president, Lucas Lopes, the two executive directors, and the co-ordinator of

1. Programa de Metas (Rio de Janeiro, 1958), Vol. I, Introduction.

2. Lafer, The Planning Process, pp. 39-70.

the working groups. Jesus Soares Pereira a nationalist who had been in the Assessoria, was named one of the technical co-ordinators of the working groups.

In the same way, the working groups, to which a consultative role was ascribed, and which were to study specific projects, were composed of ex-members of the Mixed Commission, and the "young rebels" of the Abbink Mission (nacionalistas), some linked to the Itatiaia group and/or the Clube dos Economistas.

The same can be said of the "Executive Groups" charged with implementing the sectoral targets. Sidney Latini, for example, the co-ordinator of one of the most important of them (the Executive Group for the Automobile Industry) was linked to the Clube dos Economistas.

Even more significant than the simultaneous mobilization of the two major blocs of técnicos to staff the recently-created policy-making agencies was the fact that the diffuse notions of existing socio-economic demands implicit in the commitments undertaken by Kubitschek reached a state of conceptualization and aggregation thanks to the técnicos.¹ These adopted as a starting-point the work of the Mixed Commission and, secondarily, of the BNDE-CEPAL Report on Brazil from 1955. Thus the concepts of bottlenecks, growing points, and linkages which had been inherited from the Mixed Commission and anticipated the theories of Rosenstein-Rodan, as well as the "planning of the next stages of import substitution" (given the import capacity constraint) from an initial identification of the largest items in total imports, proposed in the BNDE-CEPAL Report, seem to have provided the rationale for the definition of investment priorities,² and also the criteria for the allocation of public and private investment.

*

1. Ibid.

2. Ibid.

A first conclusion from the data reviewed above, is that Kubitschek's political strategy permitted the reproduction, this time on a larger scale, of conditions which guaranteed the relative autonomy of the técnicos in the process of economic decision making, given the absence of autonomous party organizations and the incipient state of articulation of economic interests. In the specific case of the técnicos nacionalistas it is possible to say that given the political strategy adopted by Kubitschek, which took into account the overall change in the criteria of legitimacy generated by the previous populist experience, they were given the role of channelling and institutionalizing the new values and assumptions which informed the perceptions of the professional politicians closest to the President. The most significant example of this position was the creation of SUDENE (Superintendency for the Development of the Northeast) in 1959 - the first example of regional development for the depressed areas of the country. An initiative of this kind, characterized by Hirschman as an "antagonistic task", as involving conflictive issues to the extent that it went against established interests, is an example of a redistributive reform in the period, and hence an integral part of the nationalist ideal.¹

At the same time, attention should be drawn to one of the key mechanisms in the Target Plan which demonstrated that its authors had drawn upon their political experience as Kubitschek's advisers during his period of government in Minas Gerais. This concerns the manner in which the co-operation of Congress was assured. As is well known, the Target Plan was not comprehensive but sectoral, covering only a quarter of total national production; the Plan did not earmark all the resources of the federal budget, as "an ample margin of short-term investment was left to the decision of Congress in its approval of the budget".² This created an additional mechanism which permitted a

1. See Hirschman, "The Turn to Authoritarianism".

2. Plano de Metas, op..cit., cited in Lafer.

broadening of the scope of consensus through a flexible approach to short-term investment, an issue that was secondary in terms of the global economic strategy, but extremely relevant to the need to ensure the legitimization of the actions of the executive by the legislature. Above all such device was effective to proceed with industrialization and planning without frontally threatening the vested interests of the regional oligarchies mainly represented in Congress. This was specially relevant in the case of the economically decadent oligarchies such as those of the Northeast, which due to the peculiarities of the electoral system were over-represented in Congress. However, the cooperation of the local oligarchies was obtained at a political price as we shall see in a subsequent chapter. Namely, the postponement by Kubitschek not only of the agrarian reform - one of the conditions imposed by the PTB to support him as a candidate of the party alliance but also of milder changes in the agrarian front, such as the extension of the social legislation to rural workers.

In conclusion, the notion used by Lafer to characterize the mechanism of cooptation of Congress by the executive - "commitment prior to decision", a phrase borrowed from Lindblom - is also useful to evaluate the relative positions of the tecnicos nacionalistas and cosmopolitas in the period. "Prior decision" is "a form of partisan mutual adjustment in which X, knowing that there are advantages to both X and Y from co-ordination of their respective decisions, makes a firm, non-contingent decision before Y decides, thus compelling Y to adapt to X in order for X to reap any advantages of co-ordination".¹

In the case of the técnicos, one can say that given Kubitschek's political strategy, for which the sine qua non was a return to the process of intensive industrialization compatible with a conflict-minimizing approach

1. Lindblom, Charles, The Intelligence of Democracy (New York, 1965), cited in Lafer.

to policy-making, the initiative of "prior decision" was taken by the cosmopolitas, whose starting-point was naturally enough the Mixed Commission. As for the técnicos nacionalistas the existence of a basic consensus which we have characterized as a restoration of the pattern of class collaboration and a broadening of the scope of economic democracy in Brazil made it possible for them to integrate themselves into the state apparatus as carriers of an ideology whose foundation and political guarantee lay in the commitments made by Kubitschek to his popular base. These certainly reflected the impact of populism in its 'golden age' upon the political and economic strategy adopted in the late 1950s.

Finally, the creation of a "parallel administration" alongside the traditional organs through which economic policy was implemented (the Economic Development Council, the Executive Groups, and the working groups) suggests a number of comments. It offers a further example of the political strategy adopted by Kubitschek, and of his conciliatory style of problem-solving, as it allowed him to evade the veto power of Congress over an overall cost-reducing administrative reform. In addition, the "parallel administration", based as it was upon predominantly meritocratic principles,¹ implied a renewed concentration of technical expertise in the key decision-making areas of economic policy, removed from the "conventional political arenas". This enlargement of the state sector and its partial rationalization, going hand in hand with a process of comparative insulation of the técnicos from party politics recreated, on a larger scale, the institutional base which provides the context for an understanding of the self-appointed role of 'técnicos em fins'

1. For a detailed analysis of the political resources used to ensure the predominance of meritocratic over clientelistic criteria, see Lafer, pp. 106-160.

CHAPTER IV

THE POLITICAL CONSTRAINTS TO STABILIZATION ACTION AND THE RESUMPTION OF
INFLATIONARY GOVERNMENTAL BEHAVIOUR 1958-59

This chapter considers the political factors that constrained the stabilization policies implemented in 1958-1959. This will allow us to assess whether the failure of the TYP three years later can be attributed to similar causes to that which determined the resumption of inflationary governmental behaviour and escalating indebtedness in 1959. An aspect of this which will be explored in the first part of this chapter is that despite the fact that the PEM (or Monetary Stabilization Plan) can be seen, as its critics on both right and left have pointed out, as a classic solution of the stabilization-cum-devaluation type, it is legitimate to approach it as a first enunciation of stabilization-cum-growth policies. As we shall see, the description is justified by the terms of the general directives governing the plan, and by the official or informal testimonies of its authors Campos and Lucas Lopes to which we had access.¹ It seems that when the sustained effort of industrialization was threatened by increasing financial difficulties from 1958 onward, one of the key issues at stake for which those técnicos put forward a solution was continued adherence to the investment policy associated with the Target Plan of 1956, of which they had been the major architects.

1. The principal sources to which we had access can be divided into five categories: a) the Congressional debates on the occasion of the presentation by the Finance Minister of his defence of his policies (exposição de motivos), both in the Chamber of Deputies and in the Chamber's Budget and Economy and Finances committees; b) the defences of policy (exposições de motivos) presented by Lucas Lopes and particularly by Roberto Campos to associational groups such as the Confederação de Comércio and the Confederação Nacional de Industrias; c) interviews given to the press by the authors of the PEM; an interview with Roberto Campos given to the author, London, February 1978; d) Specialized journals issued by the associational groups mentioned above, or by policy-making agencies grouping together técnicos of different tendencies. References to these sources will be made where appropriate.

This rectification of the historical record seems overdue, as it allows a far better appreciation of the dilemmas facing the policy-makers, and of the modifications introduced into the debate between the técnicos in the wake of the launching of the PEM.

One of the implications which we will seek to explore is that the ideological differences between the técnicos desenvolvimentistas submerged at the outset of Kubitschek's administration were not only brought to the fore but also assumed new proportions during and after the stabilization attempt of 1958-59. The reasons should be sought (once again) in divergences over such issues as the direction to be given to capitalist development, the sectors to which the principal benefits should accrue, and, in the final analysis, the scope of Brazilian democracy. Differences among the técnicos desenvolvimentistas themselves from that time onward will however be treated here only as an integral part of a more general political process which is, in our view, typical of conjunctures of stabilization: a process of shifting alliances between political actors (and economic agents) who were formerly members of the same political coalition. The culmination of this process, as we shall see, was the final break which occurred between the members of the alliance which had come into being in the times of the Mixed Commission, with on the one side the group of técnicos desenvolvimentistas-cosmopolitas associated with Roberto Campos and Lucas Lopes, and on the other the circle of politicians linked to the President, whose most prominent spokesman in Congress was Horacio Lafer.

A preliminary observation should first of all be made. The fact that the conjunctures of 1958-59 and 1963 can be contrasted in terms of the reasons for the political inviability of the proposed stabilization-cum-growth policies does not imply that they should be treated as entirely independent and separate from each other. On the contrary, we shall seek to indicate the extent to which the economic policy options chosen by the Kubitschek government in 1959 represent a turning point of a decisive nature in the process of political

and economic destabilization of the following years.

1. The Economic background: the resurgence of disequilibria in the light of the pattern of capital accumulation introduced in 1956.

The chronic state of excess demand for convertible currencies in Brazil all through the fifties, and the recurring threat of a foreign exchange crisis, were consequences of the characteristics of the pattern of accumulation in Brazil. It is in this context that the problems of financing industry are to be located, as are the relevant economic policy decisions, whose undeniably patchy character was owed in large part to the fact that they were ad hoc responses to rapidly changing national and international economic circumstances. The characteristics of the pattern of capital accumulation in Brazil and the associated problems of external financing can be briefly summarized by transcribing the conclusions of Pedro Malan, one of the writers whose approach to the process of policy-making in the 1950's was developed in these terms. It is an approach which contrasts with that of conventional economists, who single out economic policy decisions as the explanatory factor behind the disequilibria which concern us here, and concentrate their attention and their criticism on what has conventionally been called the "intervention syndrome" in developing countries. Malan argues that:

"Inflation and a chronic state of excess demand for convertible currencies were the natural consequences of a consumption-biased process of capital accumulation which relying heavily on foreign direct investment and foreign debt for the purpose of assembling finished goods led to heavy import dependence and mounting short-term foreign indebtedness. Indeed a pattern of growth in which each unit of value added has a high import content is the natural outcome of a process in which finished goods set up their own demands for import components and new capital goods, requiring a special kind of tariff structure or some multiple currency scheme to exercise a selective control of imports. The critics of the notion of foreign exchange constrained growth would be tackling a more substantive item if instead of just accusing semi-industrialized countries of discriminating against exports, they were noting that the claim that investment could not be raised despite a high savings potential wears thin, as foreign exchange resources were used up quite generously for the creation of productive (and non-productive) capacity aimed at increasing a certain kind of consumption"

-
1. Malan, P., "Foreign Exchange Constrained Growth in a Semi-Industrialized Economy: Aspects of the Brazilian Experience, 1946-1976", (Ph.D. Diss., Berkeley, California 1978), pp. 1-152.

The adoption of a multiple exchange rate auction system in 1953 had consolidated - in a modified form - the exchange regime of a protectionist nature combining selective import controls with an increasingly overvalued exchange rate which dated from Dutra's years. The exchange reform of 1953 was a compromise solution between two goals. The first of them was the necessity to extend the country's import capacity by means of a partial restoration of a free exchange rate market as a deliberate incentive to new inflows of foreign capital, and to exporters. In this latter case, to the extent that a part of export earnings could be sold at the free market and that special bonus were granted on major tradeables, the new regime was equivalent to an effective devaluation, which varied from export product to export product. The second objective was the need to ensure the continuity of the previous policy marked by a strong pro investment-bias in favour of the industrial sectors. This was ensured by the maintenance of selective import controls to guarantee a permanent transfer of real resources from the export sector to the industrial sector, thanks to the wide differential between the rates of exchange for preferential imports and for traditional exports. Thus the importing of capital goods, raw materials, basic inputs (as well as wheat and oil) at increasingly subsidised rates of exchange, combined with domestic price inflation represented a powerful lever for capital accumulation both for private and public enterprises in the industrial sector. In short the inflation-cum-over-valuation approach to industrialization - the so called disequilibrium scheme - was maintained throughout Kubitschek's administration.

For our purposes, however, it is the reassertion of the role of the state in the direction of the process of capital accumulation which is the most important feature of the exchange reform of 1953, in force into the late 1950s. In this specific sense, it is possible to argue that the growing participation of the state developed in two ways: a) as a leading financial intermediary both providing incentives for new inflows of foreign capital and allocating scarce resources - convertible currencies, and therefore distributing privileges and penalties which affected relative profitability between the

sectors involved, and b) as an entrepreneurial agent to the extent that the system of exchange auctions represented an additional source of resources for the financing of public expenditure.¹ It is against this background that it is possible to understand the economic policy decisions which shaped the long-run pattern of capital accumulation from the Kubitschek period on: This was a pattern of accumulation increasingly reliant upon public sector investment in infrastructure and basic industries, and upon the increasing role of foreign capital, whether in the form of direct investment in the durable consumer goods sector, or in the form of suppliers' credit from European countries, increasingly onerous from the point of view of the debt burden.

To explain the dilemmas facing the Kubitschek government from 1958 onward, Malan writes as follows on the functionality and long survival of the exchange regime introduced in 1953:

"With export earnings stagnating, an import structure progressively inflexible, bilateral lines of credit for further balance of payments assistance nearly exhausted and increasing debt service claims, Brazil altered radically its foreign exchange system in 1953...It should be emphasized, however, that its relative success up to the late 1950s depended on a changing international situation. If it were not for the European recovery, i.e. European imports, European direct foreign investment, European trade credits and European currencies' limited convertibility after 1955 the system would not have functioned so long, in conditions of the US government's low profile, and with both the refusal of the IBRD to lend and of the IMF to uphold Brazilian practices."

He adds later:

"suppliers' credit were part and parcel of a much needed European export drive... Although of relatively short-term maturities and high interest costs, these credits were a sort of development finance to the importing country since they were tied to purchases of foreign machinery and equipment. These events[....] proved to be of utmost importance to some less developed countries pushing towards industrialization. Brazil figured conspicuously among them, specially after the break with the World Bank in 1952, the attitude of benign neglect of the Eisenhower administration after 1953 and the somewhat sensational fall of coffee prices

1. For a thorough account of the aims and scope of the exchange reform of 1953, see Malan, op.cit., p.118-152. He defines the auction system as follows: the act of satisfying at a premium the excess demand for foreign exchange, through its sale by the government in free auctions.

after 1954".¹

The first test of this form of financing industrialization came in 1958, as a result of the policy adopted by the Brazilian authorities when faced with renewed strains in the balance of payments after 1957. This policy in turn contributed directly to a renewed acceleration of inflation.

*

In 1958, import capacity (FOB) fell by US\$300m (23 per cent) in comparison to the previous year, while imports (FOB) fell by only US\$105m. As the Economic Report on Latin America of 1958 shows, this was largely explained by a further decline in export receipts, and in particular by the dramatic reduction in the value of coffee exports, which fell by US\$158m, or 19 per cent, from 1957 values. In addition, payments corresponding to amortisation and servicing of the external debt rose while at the same time there was a significant decline in inflows of capital, which represented 8 per cent of the lower export total for 1958, against 16 per cent of the higher 1957 figure. The balance of payments deficit, US\$200m in 1957, reached US\$280m in 1958, a figure equivalent to one third of import capacity.

Brazil covered practically all the 1957 deficit with its own reserves (US\$163m out of US\$200m). Given the fact that the use of the same method of financing for 1958 would have meant the exhausting of international reserves, Brazil sought and obtained stand-by credits from the IMF (\$37 million) and others from EXIMBANK and private U.S. banks (respectively \$100 millions and \$58 millions) in the first half of 1958 while José Maria Alkmim was still Minister of Finance. Or in other words months before the decision to implement a stabilization programme. This point is important, as we shall see later, for an understanding

1. An important detail with regard to the exchange reform of 1953 is that it was intended initially as a rather temporary device, its objective being to attract new flows of capital. It was conceived and implemented during the Vargas administration while Horacio Lafer was still the Finance Minister, and was strongly supported by the leading liberal economist Gudin. The latter saw it as a deflationary weapon, on the assumption that the government would sterilize the financial resources derived from the auction system.

of the reasons for which Roberto Campos and Lucas Lopes stepped to the front of the political stage as proponents of the stabilization programme.

At the same time, the General Price Index showed a rise of 9 per cent in the first half of 1958, and of 24 per cent over the whole year, as against 7 per cent in 1957.¹

For our purposes, the coffee policy implemented by the Brazilian authorities after 1957 and the dramatic increase in investment in public works at the outset of 1958 (especially in road-building and in the construction of Brasilia) are the key issues, to the extent that they represent the principal autonomous forces of expansion.²

The renewed squeeze in overall export receipts, which suffered an adverse trend from 1954 to 1959, falling by 40 per cent over the period, in spite of a policy of successive effective devaluations pursued by the authorities in those years (resulting from the differential devaluation of different rates of exchange and increases in the bonuses on the export products whose production it was desired to stimulate) had its origin in a new cycle of international over-production of coffee. This began from 1956-7 on, a lagged response to the high prices of the early 1950s. In the particular case of Brazil, a further factor was the incentive arising out of the effective devaluation we have discussed, following the exchange reform of 1953. In response to these circumstances, and in part as a result of the International Coffee Agreement between producing countries, Brazil returned to a policy of control of supply, seeking to maintain the price of the product on the international market. The policy

-
1. We take as an indicator the General Price Index, which shows an increase 18 per cent greater than that given by the Cost of Living Index, as a result of the "Administered prices of public utilities, and the subsidies upon wheat and oil. See Conjuntura Econômica, "25 Anos de Economia Brasileira" (Fundação Getulio Vargas, Rio de Janeiro 1972).
 2. For a detailed analysis of the conjuncture as a whole and of the role of autonomous forces promoting expansion and the factors accounting for the absorption of inflationary pressures in 1957 and the first half of 1958, as well as factors working to aggravate those pressures, see ECLA, Economic Survey of Latin America 1958 (México, 1959).

consisted of the fixing of minimum purchase prices for domestic producers, and the purchase of supluses, amounting to one third of the crop in 1957-8, at market prices; it aimed therefore at sustaining the monetary income in cruzeiros of the producers, these being one of the sectors "left behind" in the new cycle of expansion in the economy, and partially dislodged from the system of decision-making from the time of Vargas's second administration.

Despite all this, the international over-production of the commodity, which accounted for some 70 per cent of Brazil's export earnings, made themselves felt in 1958, as prices retreated by 20 per cent from their levels of the previous year.

The important point here is that the policy represented a growing financial burden for the government: while in 1957 the resources transferred to the Brazilian Coffee Institute amounted to 9.3 billion cruzeiros, in 1958, the crucial year as far as our analysis is concerned, the figure climbed to 24.5 billion cruzeiros, most of it disbursed during Alkmin's period in the ministry.¹ By the same token, to the extent that most of those resources were financed out of the gross auction receipts (after payments of bonuses to other exporters), the policy of purchasing coffee supluses followed by Alkmim also represented a significant shift in the structure of the use of the funds obtained by the government through the prevailing system of exchange. In addition, the increases in bonuses to exporters (except of coffee and cacau) as a response to the declining supply of foreign exchange in 1958,² represented a further drain on the resources appropriated by the government through the exchange auction. In 1958, then, the prospect of acute excess demand for foreign exchange haunted the Brazilian authorities, at least until Alkmim

1. The data above and those which follow can be found in Malan, pp. 118-152.

2. In fact in June 1958, immediately after the installation of Lucas Lopes as Finance Minister, the Brazilian authorities decided to devalue the export rates of exchange for products other than coffee and cacau again: the weighted average depreciation amounted to a 25 per cent devaluation.

secured compensatory financing from the IMF early in the year. An important symptom of this state of affairs, relevant to our analysis of future episodes, is the fact that in 1958 there was a sharp decline in the foreign currency available for auction - something in the order of 18 per cent (US\$108m) between 1957 and 1958.¹ The decline was, of course, the result of the fact that a growing share of foreign currency was being absorbed by the subsidised importing of products included in the category of 'essential' and 'highly-essential' goods - capital goods, fertilizers, insecticides, wheat, petroleum, and newsprint. Furthermore, the reduction in the proportion of currency sold at auction, already significant in the first eight months of 1958, was intensified from September onward (before the implementation of the PEM), when the Brazilian authorities cut the supply of currency going to that market by 20 per cent.²

To judge then by the behaviour of the indicators of the magnitude of the scarcity of foreign exchange in the import markets excluded from the preferential categories - the minimum premia attached to the sale of foreign exchange in those markets and the free market rate of exchange - the growing pains of external disequilibria, and the effect on domestic prices and activity, were making themselves felt again.

In fact the average auction premia doubled from 91 cruzeiros in 1957 to 181 in 1958, while the free market rate almost doubled in the same period, going from 77 to 132 cruzeiros.³ The obvious implication was that the inflationary pressures, whose initial source was the form of financing purchases of surplus coffee, (and which led to a strong increase in monetary demand from the export sector) were being translated into a dramatic increase in the costs of private importers not included in the preferential categories.⁴

1. ECLA, Economic Survey, pp. 111-117.

2. Ibid.

3. Malan, pp. 150-153.

4. For a development of this point, and an explanation of the assumptions underlying the conversion of demand inflation into cost inflation, see ECLA, op.cit., pp. 109-111.

We can now review the principal economic implications of the coffee policy adopted by the authorities from 1957 onward. The first is that the exchange regime in force appeared to have exhausted its potential as a major source of financial resources for government expenditures and as a major device for the inter-sectoral transfer of real resources, as it was unable to cope at the same time with three burdens: the growing cost of the bonuses paid to exporters of the products for which incentives were to be provided (excepting coffee and cacao), other government expenditures, and the record purchase of coffee surpluses. Secondly, attention must be paid to the inflationary impact of the policy, a consequence of the increased cruzeiro income of exporters.

It is all-important to stress that the substantial increase in investment in public works at the beginning of 1958 constituted a decisive factor boosting the expansionist drive set in motion by the coffee policy. Fixed public sector investment, which grew only moderately (from 20 to 22 billion cruzeiros) between the first and second semesters of 1957, grew dramatically in the first semester of 1958, reaching 30 billion cruzeiros, and rose again to 33 billion cruzeiros in the second semester. The significance of such investments, concentrated in road-building and in the construction of Brasilia, as an expansionary factor, can be judged from the contrast with the much slower growth observed in fixed private sector investment, from 47 billion cruzeiros in 1957 to 50 billion in the first semester of 1958.

In sum, the recourse to growing monetary issues by the Banco do Brasil is explained by the dual pressure exerted by the policies described. The growing recourse of the government to bank credit - the classic form of inflationary financing - was to confirm a trend that had been visible since 1953: the increasing share of governmental borrowing from the banking system, in comparison with borrowing by the private sector. Since the 1953 exchange reform onward the additional resources obtained by the government from

currency auctions were complemented by its increasing absorption of resources available within the banking system. This was in contrast with the policy of comparative austerity in the expansion of credit to the private sector: while between 1946 and 1952 the expansion of credit to the private sector grew on average at an annual rate of 12 per cent in real terms (as against a rate of growth of 6.3 per cent per annum for GDP), it remained constant between 1956 and 1961. As Malan noted, from the mid-fifties on, and particularly in the late 1950s, there occurred a shift in the use of the funds of the banking system, the principal beneficiary of which was the government, given the inflexibility of the tax system and the absence of alternative mechanisms for government borrowing.

Finally, an adverse circumstantial factor which reinforced the inflationary pressures was the extreme severity of the drought in the North East in 1958. It represented not only a blow to the normal supply of foodstuffs in the regional market, but also an additional strain on the budget, as emergency aid had to be provided to support the affected population.

In conclusion, the resurgence of inflation in 1958 can be seen as the line of least resistance on the part of the government, compromising between conflicting goals in the face of a renewed foreign exchange restraint. On the one hand, it sought to accommodate the interests of the sector until then left behind in the process of accelerated growth - the traditional exporters; on the other, it continued its commitment to the programmed expansion of public infrastructural investment and to the construction of Brasilia.

2. To the Rescue of the Target Plan: The Monetary Stabilization Plan

In the following pages we shall attempt to show that the PEM¹ can be understood as an attempt to ensure the continuation of the Target Plan within the limits imposed by the system of class collaboration, and at the same time

1. Ministério de Fazenda, Plano de Estabilização Monetária para o Período setembro de 1958 a dezembro de 1959 (Rio de Janeiro, 1958), Vol. 1.

to satisfy the commitments made to the IMF during the period of office of the predecessor of Lucas Lopes at the Ministry of Finance. We shall be dealing here with two types of evidence: the objectives and principal recommendations contained in the text of the Plan, and the justifications put forward by its authors in statements to the press and explanations of their motives before Congress and before the commercial and industrial sectors.¹ We shall begin, therefore, with a brief description of the political circumstances which explain the entry to the stage of those técnicos on June 25th 1958, when Alkmim, the traditional PSD politician from Minas Gerais, was replaced at the Finance Ministry by Lucas Lopes. At the time Roberto Campos was the President of the BNDE, a post he was to continue to hold for some time.

2.1 The immediate political circumstances: June- November 1958

The Finance Minister Alkmim was not a técnico but an old cacique of the PSD. To judge by the written agreement between Alkmim, and the IMF of May 26th, 1958, Brazil's receipt of standby credits from the IMF, EXIMBANK and private U.S. banks as a form of compensatory financing implied a commitment to adopt severely restrictive measures which had apparently received little discussion in official circles. More important still, to judge by statements made years later to the press by Lucas Lopes, and indirectly confirmed in June 1959 by Alkmim himself in the Chamber of Deputies in response to questions from Carlos Lacerda,² the then Treasury Minister had engaged upon this course of action quite unaware of the implications it had, and the dilemmas it would pose, for policy makers. The commitment made implied indiscriminate cuts in public spending, whether for investment or on current consumption, the immediate reversal of the policy of coffee financing, wage restraint, and,

1. Some later comments upon the PEM can also be found in Correio da Manhã, 2nd April 1961, and O Estado de São Paulo, 1 November 1960.

2. See also Correio da Manhã, 2 April 1961, interview with Lucas Lopes, and Diário do Congresso Nacional, June 1959.

more particularly, the suspension of new registrations of finance through European suppliers' credits, along with the dismantling of the "nightmarishly complex" exchange regime adopted in 1953. This clearly subverted the economic policies followed to that date. Worse still, Alkmim seemed unaware of the fact that the programme could not be executed, as the limits fixed for expenditure in the agreement had been passed by June. It is difficult to say whether these commitments were made as a last ditch solution in the face of an acute foreign exchange restraint, or whether they reflect a low level of understanding of the technical and political issues involved on the part of a traditional politician known for his astuteness but poorly equipped to negotiate with the experts from the IMF. We are inclined to the view that both factors played a part in explaining Alkmim's lack of attentiveness to the threat posed by the draconian conditions imposed by the Fund to the continuity of the Target Plan so cherished by Kubitschek. These circumstances explain the latter's appeal to the técnicos, whose prestige in the eyes of the international credit agencies was high, to put forward an alternative proposal acceptable to the IMF. It is worth transcribing at length the testimony of Lucas Lopes on this point, as it not only provides a description of the relevant events, but also indicates some of the principal sources of pressure upon him on the domestic front when he went to the Ministry,¹ and gives an idea of the manner in which the relevant decisions were taken:

"In the letter of 26th May 1958 to the Fund, Minister Alkmim ... requesting a one year credit (stand by arrangement) announced a series of policies as being in the process of adoption by the Brazilian government, or to be adopted in the immediate future. The draft of the letter was discussed over two weeks, and was finally accepted by the Minister and the Fund as an agreement freely entered into by both parties. This agreement was solemnly ratified by the "Board of Directors", with a detailed account of the discussion of the programme presented by Alkmim recorded in the minutes

Unfortunately, a number of the limits which the Minister proposed

1. See the following quotation, as underlined by us. The episode of the Marcha da Produção a demonstration of opposition from the coffee growers to the more restrictive policies proposed by the authors of the PEM for the marketing of coffee, will be discussed in greater detail in the following section.

had already been passed by the date of the agreement, and a number of the measures proposed were incapable of execution, as became clear while Alkmim was still Minister. I learnt of the agreement when I returned from Japan, when it was presented to the Council of SUMOC. I was dumbstruck, and only commented on the virtual suspension of new registrations for financing (suppliers' credit, in item 5 of the letter), saying that, as it stood, the measure would bring the Target Plan to a halt. On June 25th, 1958, in obedience to an appeal from the President which I could not refuse, I took charge of the Treasury, despite the violent opposition recorded in the press.

Days later I would have to make the new arrangements for the coffee harvest, under the internal threat of the senseless "March for Production", and had to face up to the impossible commitments ... made to the Fund. The coffee growers and the técnicos who read items 8 and 9 of Minister Alkmim's letter would have understood why I was obliged not to adopt the unworkable scheme which my predecessor promised to implement. On July 8th I wrote to the Fund justifying the measures I had taken, without consulting them beforehand, and was fortunate enough to receive an assurance of their confidence in me personally, which was to help me in the dramatic struggle which I was determined to wage in the following months" (Correio da Manhã, 2/4/1961, emphasis ours).

As a testimony to the inflexibility of the IMF, on the other hand, it is worth citing the testimony of Roberto Campos, given some years later in an OECD conference in Berlin, when he was Brazilian Ambassador to the United States, and also confirmed independently.¹ Campos's observations are important for two reasons. They were made years later, at a time when it was becoming clear that the TYP would fail, and Campos, because of his experience in 1959, while still benignly disposed toward the Fund, was more critical of it than Lopes had been, a factor which would explain his comparative flexibility as an economic planner in the post-64 regime.² His critical remarks embraced the following areas: 1) "the inattention of the Fund to the commercial losses of under-developed countries" - or in other words the steady deterioration of the terms of trade throughout the fifties; 2) the insistence upon "simultaneity of internal monetary and fiscal measures and

1. Jornal do Brasil, 27 October 1963.

2. In fact Campos's attitude differed slightly from that of Lucas Lopes, who after breaking with Kubitschek in 1959 made no public statement of total support for the policies of the IMF until an orthodox plan was introduced during the presidency of Quadros.

exchange devaluation"; 3) the "underestimation of political resistance to the over-rigid application of monetary programmes. Still more significant for our purposes was the criticism of what Campos called "the aggregative fallacy" underlying the official position of the IMF. Campos was critical of

"the formulation by the IMF of monetary programmes to contain excessive global demand without discriminating adequately between consumption and investment, when in fact it is necessary to preserve at all costs investment in certain key areas, not only because they constitute bottle-necks which impede the expansion of supply, but also because investment in these sectors permits the absorption of unemployment generated by the contraction in non-priority investments. Therefore ... the IMF should take the lead in promoting investment by the World Bank and the Interamerican Bank and other agencies, simultaneously with stabilization programmes, breaking with the normal tendency of these financiers, which is to await the results of such programmes before making any investment. The problem is not one of diminishing the investment programme, but of improving its composition, and at the same time mobilizing non-inflationary resources through taxation and foreign borrowing in order to carry it out" (emphasis ours).

This analysis and the position adopted by Campos is reflected in the general economic guidelines of the PEM. Similarly, the testimony of Lucas Lopes in relation to the demands of the coffee growers is supported by the recommendations of the Plan, through which an attempt was made to introduce a degree of discipline, and also to attend to the political injunctions of the conjuncture of 1958. Before embarking upon a summary of the PEM, we should recall two aspects of the circumstances preceding its launching. One of the factors which acted as a powerful spur to the search for a more gradualistic approach to economic policy, in comparison with that of the IMF, and to the formulation of an alternative to render compatible stabilization and development, and at the same time to meet the commitments made with that body, was the negative impact upon the Brazilian técnicos in general of the Chilean and Argentinian experiences with stabilization.¹ The técnicos had followed those experiments more closely than had Alkmim, and were fully aware of the

1. For an account of those experiences see Hirschman, Journeys Towards Progress, and Thorp, R., "Economic and Social Consequences of Orthodox Economic Policy in Argentina in the post-war years", Bulletin of Oxford Institute of Economics and Statistics, February 1965, vol. 27.

adverse effects upon economic development, and the high costs for political stability, and were determined to avoid them.

On the domestic front, although it was programmed for September 1958, the announcement and implementation of the plan was put off until after the Congressional elections of October. In this case, the results of the elections were sufficiently significant to justify greater attentiveness to the commitments made by Kubitschek to the popular sectors (a point to which we shall return in the following section). The outcome of the elections was that while the PSD and the UDN held their share of seats in the Chamber, the PTB gained ten seats. (at the expenses of the PSP, the party of Adhemar de Barros, which lost as many.)

2.2 The Monetary Stabilization Plan: diagnosis and prescriptions.

The general directives governing the PEM can be formulated as follows: the industrial progress of the country demands growing quantities of machinery, raw materials, and fuels. Some of these production goods will have to be imported, which calls for an immediate expansion of exports, combined with some recourse, albeit disciplined, to suppliers' credits; given the fact that inflation has reached the limit of its "productive phase", the reaching of that objective will be possible only if the increase in national production can be achieved with resources withdrawn from activities producing goods for internal consumption, or in other words through voluntary savings, and compulsory savings as a result primarily of fiscal measures.

The basic assumption was that inflation-cum-overvaluation had run its course as a mechanism for capital accumulation, because of two constraints. The first was identified as the growing capacity of wage-earners to defend themselves, for from 1954 onward, and again in 1956, they had obtained rises in excess of the rate of inflation. The second constraint, implicit in the Plan and explicitly recognised in the mimeographed summary,¹ was that of the

1. Síntese do PEM (mimeo), p.3.

full utilization of factors. The constraints were stated as follows:

"If in an initial stage inflation may increase the profits available for investment, the effect is soon exhausted because the wage-earning classes, perceiving the plunder of which they are victims, begin to demand and to obtain wage increases equal or superior to the increase in the cost of living, with which the saving potential inherent in the first phase of the inflationary process is lost... That inflation, which until 1954 appeared to be investment-led, was becoming more and more cost inflation characterized by a wage-price spiral" (I, pp. iv and 26).

"The increase in the volume of production depends upon the increase in the availability of real factors such as labour, machinery, exchange for imports, etc; when the physical limits to the growth of production are reached, monetary expansion will only exacerbate and provoke the increase in the price of goods" (Summary, p.3)

It is on the basis of these rather strong assumptions,¹ and on the basis of the recognition of the political inviability of implementing a policy of severe wage restraint (as we shall see later), that the identification of the principal sources of inflationary pressure becomes meaningful. These were government deficits financed out of the expansion of the monetary base and associated credit policies. Thus, according to the PEM, the expansion of means of payment in the previous five years had reached an annual average of 20 per cent, set against an annual average increase of 5 per cent in the internal availability of goods and services, and, along with the consequent expansion in credit, appeared as a factor responsible for an increase in prices at an average of 14 per cent per year.

The ultimate purpose of the PEM was therefore presented as being the matching of the flow of money (increase in means of payment) to the flow of goods and services (increase in national production at constant values). The principal factor to which attention was directed was the reduction in issues of money, with the classic remedies - increase in obligatory reserves, and an increase in the discount rate. One of the key solutions, as we shall see immediately, was an increase in a number of taxes as a means to eliminate the

1. The assumption that the phase was one of cost inflation (a wage-price spiral) was a very strong one, despite the constant increase in average real wages in industry which characterized the Kubitschek period, it fell below average increases in productivity in the sector in the same period.

federal deficit, "making unnecessary the enormous issues of money we have seen in the recent past". All the other proposals of a disciplinary nature, whether for the banking system, or guidelines for maximum wage increases, etc., were intended to avoid the major initiative being nullified by indirect means".

The gradualist strategy of the plan is seen in the formulation of its two different phases. The first, of "transition and readjustment", to last until 1959, allowed for "a certain degree of monetary expansion so that the economy can absorb, without unemployment, the impact of some wage adjustments made necessary in order to make good the loss of purchasing power of classes on fixed incomes". In the second phase, of stabilization proper, from 1960 onward, it was intended to proceed to "the limiting of the means of payment to the necessary increase in real product".

Despite this declaration of principles, only an analysis of the specific proposals can indicate the extent to which we may speak of gradualism, for an evaluation of what is to be understood by such an ill-defined expression can only be made with reference to previous practices and magnitudes. This will also permit us to understand the reactions of the various sectors affected, and this will be the theme of the following section. The principal items of interest here will be monetary policy, the scheme proposed for the correction of the financial deficit in the public sector, wages policy, and balance of payments policy.

As regards the ceilings for monetary expansion, the programme foresaw an increase of 15.3 per cent by the end of 1958, 10 per cent in 1959, and 5 per cent in 1960. As regarded the key year of 1959, when expansion was not to exceed 33.5 billion cruzeiros, the increase of 10 per cent was deemed necessary in view of the impossibility of implementing a sudden cessation of increases in the level of prices, given a) the effects of the next increase in the minimum wage, which would absorb half the projected increase in the means of payment, and b) the expected increase in global real product, which would justify the other half of the increase. However, the increase in the

means of payment over the preceding three years, 1955-8, had averaged 24.5 per cent per year. This means that the ceilings fixed for 1959 and 1960 represented a substantial switch away from the historical trend, setting a new average over the two years of 8 per cent per year. The evaluation of this switch by the journal Desenvolvimento e Conjuntura is illustrative of the scope and magnitude of what appeared to the técnicos of the CNI a rather tight monetary policy:

"This is a violent constriction of the means of payment ... even with the new minimum wage (the increase in which as foreseen in the programme is equivalent only to the increase in the cost of living since the last readjustment). The means of payment in the country, on the hypothesis adopted by the Programme, will reach approximately 471 billion cruzeiros in 1964. When if its rate of growth were maintained as it was in the period 1948-57, it should reach almost 1,066 billion cruzeiros".

The financial scheme proposed to prevent the public sector continuing to generate strong inflationary pressures is one of the most important factors for an evaluation of the reactions triggered off on the part of political actors and economic agents.

On the calculations of the proponents of the Plan, the burden of federal taxes as a proportion of Gross National Product, even including gross exchange auction receipts, fell from 10.4 per cent in 1954 to 8.4 per cent in 1956. At the same time, the auction receipts had to be channelled toward the expansion of exports, the purchase of coffee surpluses, and other legally binding obligations. In the circumstances, a financial scheme was called for which would, a) limited the current expenditure of the national Treasury (to 158 billion cruzeiros - see Table II), and reduce the budget expenditure proposed to the Legislature by the Executive by 3 billion cruzeiros, while, b) on the revenue side the anticipated income of 148 billion cruzeiros was based essentially on i) the executive's obtaining new sources of taxation which, as we shall see, amounted to a mini-fiscal reform to be voted by Congress, ii) the tying of the readjustment of the salaries of public

1. Desenvolvimento e Conjuntura, December 1958, p.11.

functionaries upward by 30 per cent to the passage of the proposed increases in taxation through Congress, and the postponement of the introduction of the salary increases until July 1st, 1959, eight months after the implementation of the Plan; iii) the liberalization of the prices of public utility services and autarquias, recommended as a condition for the increase of the corresponding wages and salaries within the limits fixed by the plan - an expedient adopted to prevent enterprises in deficit turning to the national treasury as they had done in the past, and iv) finally, the rationalization of government expenditure in order to channel a substantial portion into "reproductive" investment, reversing the trend which had brought consumption expenditure from 55 per cent of the total in 1948 to 88 per cent by 1956.

Table I Fiscal Revenues projected for 1959
(Millions of cruzeiros)

Expected revenues on existing tax structure	135,000
New revenues:	
Income tax	(5,000)
Consumption tax	(5,800)
Stamp tax	(1,700)
Royalties and fees	(500)
Total	13,000
Projected Revenues	148,000

[Source: PEM]

As Tables I and II show, the execution of the financial programme was dependent upon the willingness of Congress to vote immediately, in November 1958, the fiscal reform proposed by the executive, so that it could be included in the Finance Act implementing the budget proposals, and make its contribution to public revenues in fiscal year 1959; even so, a current deficit of 10 million cruzeiros was projected. As we shall see, the intended changes were sufficient to merit the name of a mini-fiscal reform, particularly in the case of the income tax, and the rationale behind them needs to be discussed.¹

1. Note however, that the most important source of resources was still the consumption tax.

TABLE II: Financial Balance, 1959 (billions of cruzeiros)

I. Total expenditure	158
Proposed revised budget	135
Plan for Reclassification of Posts	8
Payments outstanding and Special Funds	8
Additional credits and advances to states and municipalities	4
Article 4 of Code of Accounting	3
II. Total Revenues	148
Proposed revised budget	135
Bills to go before Congress	13
III. Current deficit (I - II)	10
Financed through Treasury Bills	.6
Financed by the Bank of Brazil	4

[Source: PEM]

There were two facets to the reform. In one respect it is possible to speak of a progressive incidence of income tax, as in order to discourage non-productive investments and to correct the loose existing legislation on the transfer (through purchase or inheritance) of real estate, sectors whose incomes were increased by the rise in property values associated with the process of urbanization and inflation were penalized. Thus added taxes were imposed upon the sale of properties (a 10 to 15 per cent increase on former rates), and an indirect brake on the trading of such goods was introduced by placing individuals who dealt in such enterprises as property companies or the sale of lots of land on the same legal footing for tax purposes as legally constituted companies. In the Plan these fiscal norms were described as "indirectly linked to economic development".¹ A second aspect of the reform is that those measures "directly linked to economic development" anticipated to a certain extent the fiscal reform introduced by the post-64 regime.

1. In the plan and in the lecture given by Campos to the Confederação Nacional de Comércio in March 1959 also references are found to the need to penalize sectors hitherto privileged from the point of view of taxation: royalties and liberal professionals. See Digesto Econômico, No. 147, May-June 1959.

Thus through the system of fiscal options it sought to stimulate private sector saving and to channel it into priority investments, defined and controlled in such a way however that the state strengthened its own control over investment policy. The principal measures were a) the system of fiscal options for contributors subject to additional income tax - companies making excess profits - in order to allow them to channel the sums collected into Investment Deposits in place of taxation; b) the creation of an Investment Commission to order and utilize these resources; c) the creation of an Industrial Investment Fund within the BNDE, which "will be composed of capital shares paid voluntarily by particular companies, as an income tax payment, in place of the payment of taxes on the revaluation of assets"; d) the broadening of the range of fiscal incentives, already in a bill before Congress, in order to stimulate the renewal and modernization of industrial plant, granting the executive branch the power to establish, in the interest of the national economy, coefficients for the acceleration of depreciation independently of the physical wear and tear of the goods concerned"; e) reduction of the existing tax, in order to stimulate the incorporation of capital reserves into the share capital of companies, with the tax payable by the company itself rather than by the partners or shareholders.

Another important aspect of the attempt to contain public expenditure was that the increase of 30 per cent (7 per cent below the increase in the minimum wage) granted to public functionaries, whether civil or military, was restricted by a number of norms which were to affect Congressional voting on the budget. Firstly, as we saw, its implementation was postponed until July 1959. Secondly, super-numerary functionaries were awarded an increase of only 20 per cent. As most of the appointments made through the patronage system were made through the inclusion of functionaries in the super-numerary category, the move struck a blow against the system of rewards used by all the political parties in exchange for electoral support. Furthermore, the fact that increases in wages and salaries in the autarquias and public

enterprises were tied to a proportionate increase in their prices and charges meant that the onus of increased labour costs would be transferred to the consumer. Added to the increased consumption tax, the incidence of which was regressive, this was bound to be an unacceptable solution for the parliamentary representatives of the popular sectors.

Finally, in order to ensure that the ceilings on the overall expansion of the means of payment would be respected, the Plan imposed upon the Banco do Brasil a rationalized selective credit policy, governed by the following principles: the share going to the private industrial sector was maintained, the share going to the Carteira de Crédito Agrícola (Agricultural Credit Section) was increased with a view to increasing exports, and the share going to the National Treasury was cut back, in view of the limits placed on the current deficit of the financial programme (ten billion cruzeiros), and the provision for non-inflationary financing through treasury bills placed with banks and other financial institutions (six billion cruzeiros), and through credit operations by the Banco do Brasil itself (four billion cruzeiros).

*

The minimum wage policy adopted clearly reversed the trend initiated by Vargas in 1954 and sanctioned by Kubitshek at the time of the adjustment of 1956, when the increases granted were respectively 27 per cent and 12 per cent above the rate of inflation. Thus the proposal of the authors of the plan that the purchasing power of wages should be restored to what it was after the last readjustment, that of 1956 (implying an increase of 37 per cent in 1959), represented a form of wage restraint, in particular in terms of the expectations created since 1954. The truth is that the Plan reflected two attitudes in this respect. The first, ideal in economic terms but recognized as politically impossible, was to grant a readjustment that would have set the real minimum wage at 25 per cent above the level established when it was first introduced in 1940. The second option, consisting of the up-dating of the 1956 settlement in accordance with the subsequent increase

in the cost of living, revealed the need to accomodate the interests of the popular sectors and the electoral base of the PTB.

Nevertheless, if the policy proposed in this respect by the plan was not exactly anti-popular, it did reflect a conception of the role of wages in the recent acceleration of inflation and of their desired or economically feasible role in the accumulation of capital which betrayed a bias in that direction, and therefore foreshadowed the policies pursued after 1964. The underlying thinking in the plan can be observed in the following items:

a) the assumption, already noted earlier in this section, that Brazil was entering into a phase of cost-inflation (a wage-price spiral), and that therefore inflation was no longer functioning as a mechanism of forced saving;

b) in the manner in which it brushed aside the quantitative evidence pointing to the fact that the increase in average productivity in industry in the period had been far in excess of the increase in real wages in the sector, c) in the repeated assertion that substantial increases in the minimum wage were a poor instrument of income redistribution in comparison with fiscal instruments, as they induced sharp rises in the prices of mass consumption goods, as a result of inelastic supply,¹ and d) in the argument that the wage policy hitherto pursued reduced funds available for investment by companies.

Finally, the measures proposed in the PEM to correct the balance of payments deficit can be described as gradualist in terms of the requirements of IMF orthodoxy, but they still implied a commitment at a later stage to a restoration of parity between internal and external values of the currency, a reduction of exchange rate subsidies, and greater discipline in recourse to suppliers' credits. Thus if the fact that gross auction receipts were to

1. In fact as the terms of trade between agricultural production for the internal market and industry were favourable to the former, food prices rose at a faster rate than industrial prices throughout the 1950s. However, the authors of the PEM seem to dismiss the role of commercial intermediaries in the setting of agricultural prices, and especially in the accumulation of stocks for speculative purposes, a phenomenon intensified in inflationary circumstances.

be channelled toward the expansion of exports and the financing of coffee production indicated that no immediate dismantling of the prevailing exchange regime was contemplated, the yearning of the principal recommendations to bring relief to the strains of the balance of payments nevertheless suggested a classic devaluation strategy. The principal recommendations were 1) a gradual convergence of the internal and external values of the currency, with a view to making production for export as remunerative as activities oriented toward the internal market; 2) the gradual elimination of exchange subsidies, not only in order to depress consumption, but also to depress excessive and indiscriminate demand for raw materials and capital goods, over-stimulated by unrealistically low cruzeiro prices; 3) the granting of any subsidies judged necessary "in an open manner, through the national budget, so that their weight falls on the whole community, and not only on the export sector"; 4) the limiting of new authorizations for imports eligible for suppliers' credits in dollars or currencies of limited convertibility to the amount of former credits repaid, in order to keep the current debt from increasing, for a minimum period of three years.

*

To summarize, the PEM can be described as a classic programme of a stabilization-cum-devaluation type, in view of the fact that it proposed a balanced budget, a tight money policy, a degree of wage restraint, and a steady convergence of the internal and external values of the currency. It therefore represented an end point for the efficacy of the inflation-cum-overvaluation scheme as a mechanism for the intersectoral redistribution of real resources. Nevertheless, it can also be said, in view of the gradualism which marked it, that it took into account the impact of the populist approach to wage policy, and the demands of coffee growers and industrialists, by providing for a monetary policy sufficiently flexible to absorb the expected wage increases. In this sense the plan was less orthodox than the general run of IMF programmes in the period, and more compatible with the existing system of class

collaboration.

Finally, two conclusions emerge from this discussion. The first relates to the basic orientation underlying the fiscal reform, that of the introduction of a greater rationalization of the use of private sector savings channelled into productive investment, under the growing tutelage of the state. This orientation is confirmed by the new regulations relating to import subsidies. In each case the intention was to introduce a discriminatory policy regarding exports and the granting of subsidies, in order to give an incentive only to investments considered of high priority. Secondly, the discussion above of the wage policy option which was technically possible and economically desirable but politically inviable, if considered in the light of the alternative proposals put forward within the desenvolvimentista-empresário camp (discussed in the following section), and compared to the economic ideology underlying the TYP, (see subsequent chapters) suggest that the PEM can be classified as a centre-right alternative approach to the vital issues which confronted the técnicos whenever stabilization policies had been at issue since the mid-fifties. If this was the case, we believe that our summary of the proposals of the PEM, if compared to those of the TYP, provides sufficient evidence to undermine John Wells' assertion that the TYP was a carbon copy of the 1958 programme, or, conversely, the argument that it was identical to the PAEG, implemented in 1965.

In conclusion, then, it can be said that although the PEM confirmed the pattern of accumulation established with the Target Plan, based on the crucial role of the state as an entrepreneurial agent investing in infrastructural projects and basic inputs, and on increasing reliance on foreign capital, it imposed at the same time a new character on the scope and form of the model of associated development. This was because, to judge by the proposals examined, the non-inflationary financing of industrialization in conditions of increasing excess demand for foreign exchange, a relatively inflexible tax system, and a poorly developed capital market, was to rely on new

arrangements. Most of which in the final analysis implied a shift in the composition of global output in the economy, and consequently a new distribution of real resources within and between sectors. The new arrangements were threefold: an exchange rate policy increasingly discriminating in favour of exports, along with the progressive elimination of exchange incentives for the industrial sector; the more intensive use of fiscal and credit instruments whose comparatively more selective character was intended to provide incentives for the capitalization of companies and the directing of private savings into priority investments; and the reduction of private and public consumption through combined policies of the freeing of public sector prices, an income policy, the elimination of exchange subsidies on mass consumption goods (wheat and petroleum), and, finally, a reduction in the current expenditure of government. All the indications are, however, that a single decisive political calculation influenced the chief authors of the PEM. This seems confirmed indirectly by the comments from Campos cited above. The calculation in question can be formulated as follows: despite the gradualist strategy for combatting inflation and the balance of payments deficit, intended to deflect possible political resistance on the domestic front, the nature and the extent of the measures proposed seemed to meet the requirements of the IMF. As a consequence, restrictions on recourse to short term loans through suppliers' credits would be compensated for, with the approval of the IMF, by a new flow of foreign capital in the form of direct investment.

It is on the basis of these considerations that it is possible to understand the reactions within Brazil to the launching of the PEM.

3 . The Resumption of Inflationary Governmental Behaviour and Escalating Indebtedness: an undesired way to circumvent the Plan.

We now turn to a brief description of the main sources of opposition to the PEM, highlighting the reactions of the following political actors: the coffee growers, the professional politicians in Congress, and a sub-sector

of the técnicos desenvolvimentistas who advanced an alternative proposal to stabilization-cum-growth policies on behalf of the industrial entrepreneurs represented by the CNI. As we shall see priorities of a political order determined the postponement of stabilization action in 1959, given the difficulty of devising an agreed economic strategy to tackle the disequilibria on the domestic front and maintain the support of the rigid IMF. It was politically essential to ensure the continued working of the political understanding between the executive, the ruling party coalition in Congress, (PTB-PSD), and the trade union leadership, while attending to the demands of one of the most powerful pressure groups, the traditional exporters. We shall therefore attempt to demonstrate that the continuation of the smooth working of the social compact underlay the political stability enjoyed by the Kubitschek administration, thus confirming in part the analyses of other Brazilian political scientists who have examined the period.¹ On the other hand though, a point which has been neglected so far and which should be stressed here is that the re-emergence of the growing pains of disequilibria from 1959 on may be seen as the price paid by the Kubitschek administration to secure the co-operation of Congress while furthering intensive industrialization within a system of class collaboration. In this connection it should be borne in mind that the PTB-PSD alliance was consolidated at the level of the federal executive itself: in addition to the traditional division of ministries between the two parties (Finance for the PSD, and Labour for the PTB), the presence in the Vice-Presidency of Goulart, whose control over the trade union leadership was undeniable, represented a pledge that the wage policy initiated in 1954 would not be reversed.

The most striking features of the debate which followed the launching of the PEM were the growing politicization of the main economic issues and a corresponding tendency on the part of the interest groups affected to

1. See Benevides, op.cit., and Lafer, op.cit.

minimize the dilemmas facing the government, and an absence of global alternatives proposed by the principal economic actors. In other words, with the exception of the official document put out by the Economics Department of the CNI,¹ the opposition to the policies adopted, whether within Congress or outside it, was restricted to the presentation of two types of criticism. The first consisted of specific objections to particular items of policy, on the part of the sectors directly affected, while the second consisted of objections of a more general nature and of a nationalist-developmental bent, aimed principally at the conciliatory policy adopted toward the IMF. The significance ascribed here to the CNI document stems among other things from the fact that it represented a decisive turning point for the debate within the developmentalist camp, conducted between the técnicos within it. As we shall see, judging from the alternative proposals on fiscal, wage, and credit policy, it is possible to detect for the first time the emergence of a project of semi-official character, apparently supported by the industrialists, and classifiable because of its strongly anti-popular bias as representative of a position to the right of the PEM, and anticipatory of the policies implemented from 1964 onwards.

Although the period over which the PEM was implemented stretched from October 1958 to June 1959 - sufficiently long to induce a retraction in economic activity - the political inviability which concerns us began to make itself manifest in December 1958 and January 1959. This was largely due to the fact that the decisions of Congress relating to the government's financial programme for 1959 severely limited the options left open to Campos and Lopes.

*

3.1 The reactions of the coffee growers:

Before discussing the attitude taken by Congress, however, it should

1. Desenvolvimento e Conjuntura, December 1958. Before this document appeared, a more theoretical discussion of stabilization-cum-growth policies could be found in the same journal, October 1958.

be recalled that in September and October 1958 the proponents of the PEM met with the organized hostility of the paulista coffee growers, who were dissatisfied with the plans made for the purchase of the coffee harvest of 1958-9, which were somewhat less generous than in previous years.

The episode known as the Marcha da Produção - a motorized demonstration which involved some 200,000 vehicles, planned for October by the coffee growers and finally blocked by the Army at the request of the Finance Minister - was the most dramatic symbol of the resistance to the PEM from the traditional exporters. The debates which took place in Congress at the time afford examples of less highly visible but equally symptomatic manifestations of the tensions created in this area, classified by a conservative São Paulo newspaper more or less closely identified with the cause of the coffee growers as "exorbitant demands from an irresponsible group of growers and politicians".¹ Among them was a speech by UDN deputy Herbert Levi from São Paulo, a coffee grower himself, on the occasion of the Exposição de Motivos (defense of government policy) to the Chamber of Deputies by the Finance Minister on November 29th, 1958, worthy of notice because it reflected a recurrent pattern in those debates which, as we shall see, was neither exclusive to nor typical of the opposition deputies: a deficient level of understanding of the dilemmas faced by the federal government. After praising the restrictionist plan of the government as the most consistent to date with the policy of economic austerity preached by the UDN (balanced budget, wage restraint, a realistic exchange rate, and monetary restriction), Levi delivered a blistering attack on the coffee policy followed by the government, based upon his own peculiar analysis of the coffee crisis. Thus beginning with the double asseveration that "it was the fall in production which led to the fall in the prices of Brazilian coffee", and that "the Plan is incomprehensible if production is not aided by increasing credit in rural areas", he went on to present an

1. O Estado de São Paulo, 1 January 1960.

alternative proposal: a selective credit policy to stimulate the domestic production of coffee. Later, criticizing the confisco cambial (confiscation of exchange earnings) which burdened the traditional exporters, at the same time that he praised Minister Lopes for his "attack on artificialism", he claimed that he could not understand "why the Minister does not adopt that policy for coffee and for cacau". He brushed aside, it seems the fact that the purchase of surplus coffee was part and parcel of that same "artificialism" the UDN so often criticized. Finally he recommended that the budget should be balanced by "the adoption of greater restrictions in the continual increases in the salaries of the military and of civil servants" while "the countryman was forgotten."¹

To judge by these incidents, one of the sectors which was in fact being left behind in the process of accelerated development, and partially penalized by the exchange reform of 1953, was finding it difficult to modify its expectations in relation to the intervention of the state in defence of its interests, despite its traditional defence of economic liberalism and the prospects opened by the PEM of the restoration of a free exchange market. Nevertheless, although unable to look beyond its particularistic attitude - manifest in the absence of any alternative proposal for an economic policy able to unite exporting groups in general - the coffee-growers constituted a strong enough pressure group to keep the restrictionist programme of the government within stricter bounds.²

-
1. Diário do Congresso Nacional; a summary of the debate may also be found in O Estado de São Paulo, 30 October 1958.
 2. The coffee policy was one of the targets of the opposition, who saw it as an example of the "expansionist" policies of Kubitschek. For example, after the failure of the PEM the Estado de São Paulo in an article entitled "A significação nacional do caso Lucas Lopes", opined as follows: "The President of the Republic was equally discomforted by the effort expended by Mr. Lucas Lopes in developing a plan for the marketing of the coffee harvest of 1959-60 which ignored the demands of the coffee growers ... Not wishing to grasp the inflationary implications of these demands, Mr. Kubitschek responded to the efforts of the Treasury Minister to stop the coffee policy provoking major issues of paper money as if it were something which only gave him the odd headache" (O Estado de São Paulo, 30 October 1958).

3.2 The first reactions in Congress and the business groups.

Two other episodes which occurred before Congress voted on the 1959 budget are worth mentioning, as they give an opportunity to assess the nature and the scope of resistance to the fiscal and monetary policy proposed. The first was the negative reaction of the PTB and PSD congressmen in two Congressional committees, those of Economics and Finance, and of the Budget, when they met with Lucas Lopes. This related to three areas, these being the link between salary increases for public servants and success in increasing fiscal revenue sources, the criteria adopted for setting the minimum wage, and, in the case of the representatives of the most backward states, the very idea that one source of non-inflationary financing to which the government might turn was increased taxation.¹

The second episode is illustrative of the misgivings of a significant sector of business groups, and also of the dilemmas that Congress would face. On the occasion of the first debate between Roberto Campos and the Council of Producing Classes in the Commercial Association, resistance to the Plan was concentrated upon the following topics: 1) the extremely restrictive credit policy; 2) the restructuring of the system of taxation, and especially the modifications to the income tax, and the system of fiscal options which allowed companies to pay taxes in the form of purchase of profit-bearing shares deposited with the BNDE - a measure identified as excessive state involvement in the economy"; 3) the deficit, which was generally blamed upon the Target Plan.² It appears that despite the clarification offered by Campos, the

1. See Diário do Congresso Nacional, 29 October 1958. In some cases resistance to increases in the burden of taxation was expressed through obstructionist tactics based upon the putting forward of alternative proposals which either were inviable in the short term, or would bring little immediate relief to the budget. Thus references to "the need for bank reform", better control over collection, or control of capital flight to Switzerland, for example, are often found.

2. O Estado de São Paulo, 12 November 1958, and Digesto Econômico, No. 147, May-June 1959.

Council decided to send a Memorial to the Treasury extremely critical of the PEM. It is equally important to note that in defending the expenditures under the Target Plan as constituting only a part of budgeted capital expenditure - 57.5 per cent in 1957, 60 per cent in 1958, and 80 per cent in 1959 - the president of the BNDE also argued for the need to reduce a politically sensitive item of public expenditure. In his own words: "there are within the capital expenditure budget a great number of investments needed to satisfy regional demands or political pressures...; the execution of the Target Plan would benefit from the reduction of some of these fragmentary investments ... which are not translated into an increase in the productive capacity of the nation". Now the principal beneficiary of these investments not linked to the Target Plan was Congress, whose co-operation at the time when the Target Plan was launched had been secured by this means (see previous Chapter).¹

Similarly, by defending the linking of the salary increase for public servants to the fiscal reform, the postponement of its implementation until mid-1959 by Campos transferred onto Congress the onus of taking a manifestly unpopular decision, as Lopes had done in his own Exposição de Motivos. These measures were bound to provoke resistance from Congressmen anticipating the reaction of civil and military public servants, and from sectors, including business groups, opposed for different reasons to the restructuring of the system of taxation. It is against this background that it is possible to understand the decisions of Congress at the end of 1958, and it is to that, that we now turn.

*

(3.3 The Congressional Decisions.

One of the first difficulties foreseen in relation to the plan for the containment of public spending was that of timing. The process of studying and voting the financial programme for 1959 began in Congress in May 1958, while Alkmim was still minister. If the new targets fixed for 1959 were to

1. It should be recalled that this was part of the "circumventing political strategy" devised by Campos and Lopes in 1955-6.

be met then, both for the projected expenditure and for the revenues which the executive outlined to Congress in October, two requirements had to be met. Firstly, the formal procedures by which the proposals of the executive branch passed through Congress had to be made matters of urgency, and secondly the expectations of Congressmen had to be reversed as regarded policy on wages and on taxation, and the re-allocation of some capital expenditure, as discussed above. There were three key assumptions behind the targets set by the PEM in connection with the new budget (outlining expenditures of 158 billion cruzeiros against receipts of 148 billion cruzeiros): a) that the new fiscal revenues would be voted in time for inclusion in the 1959 budget, b) that it would be politically feasible to postpone increases in the salaries of public functionaries for six months after the minimum wage had been increased and the fiscal reform had been approved; and c) that the total set for expenditure would not be exceeded by Congress.

To judge by the decisions taken by Congress in November, those assumptions were over-optimistic.¹ In the first place, the legislature voted expenditures 18.2 billion cruzeiros (13 per cent) above those planned.² Furthermore, additional strains were placed on the budget on the receipts side, for although the resources estimated by the Senate and the Chamber reached and even passed the levels set in the Plan, the congressional year closed without the needed fiscal reforms being voted. The net result therefore was a reduction of 4 billion cruzeiros from the receipts projected by the executive. The only option left open to the executive was to reformulate its financial programme

-
1. In addition to the Diário do Congresso Nacional, see the journal Conjuntura Econômica, December 1958, January 1959.
 2. As observed by contributors to Conjuntura Econômica (the journal published by the Fundação Getulio Vargas, which housed the neo-liberal técnicos of the Gudin-Bulhões group, the increases in expenditure voted by Congress corresponded to those anticipated in previous legislation or to planned public investment. Most of them were either a) readjustments to the values of grants established by constitutional dispositions relating to earmarked expenses, b) subsidies for members of Congress, and c) new planned public investments.

in December, introducing larger cuts in public spending than initially foreseen.¹ Finally, increases in the salaries of public functionaries were voted by Congress in January 1959 within the limits (30 per cent) set by the PEM, but with effect from that month rather than from July. This represented an unforeseen expenditure of 38 billion cruzeiros (22 per cent of the estimated budget), while the projects relating to the fiscal reform lingered on in the various committees within Congress, placing additional strains on the budget.

It has to be recognized, however, that a further squeeze on the salaries of civil servants was in fact politically impossible, because given the nature of the party system, electoral calculations forced the congressmen to take account of their commitments to their clientele dependent upon the patronage system, concentrated as they were in the various sectors of public administration at federal and especially at state level. In addition, it was imperative to maintain the differential between the working class and the public functionaries, in the wake of the substantial increase in the minimum wage voted in December 1958. It should be recalled that the question of the preservation of this differential had been shown to be a politically sensitive issue among the military, and had acquired dramatic connotations in 1954, at the time of the Colonels' Manifesto.²

In December 1958 Congress voted the increase in the minimum wage, raising it 57.9 per cent over its 1956 value. This was in excess of the rate of inflation over the same period (33 per cent in accordance with the cost of living index), and in excess of the ceiling fixed by the PEM. (37.5 per cent). The decision was an indication that it was not politically feasible to overturn expectations on the wage front regarding continuing real increases in the minimum wage, created by Vargas and confirmed by Kubitschek in 1956.

1. See Conjuntura Econômica, January 1959.

2. See Chapter II.

The trend of the minimum wage in the period is seen in Table III, from a base of the first semester of 1952.¹ With the two major increases of 1954 and 1956 the index of the real minimum wage reached 139 and 138 respectively, against 100 for 1952; with the increase of 1958-9, it moved up to 159. More significantly, and in contrast to the situation in 1954 and in 1956, it had been decided to revise the minimum wage before its real value had been completely eroded by inflation. Thus, as Table III reveals, the real minimum wage had fallen to an indexed value of 73, again against 100 for the first semester of 1952, when Vargas increased it by 100 per cent in 1954, losing 27 per cent of its original value. By 1956 it had again dipped 7 per cent below its real value in 1952 before an increase was granted. In 1958, in contrast, the real minimum wage still stood at 4 per cent above its original value when it was once again adjusted upwards.

Table III: Minimum and Average Wage in Federal District 1952-9
(first trimester of 1952 = 100)

	Cost of Living Index	Minimum Wage	Minimum Nominal	Wage Index Real	Average Wage
1952	100	1,200	100	100	1,451
1954					
Mar	137	1,200	100	73	1,524
Jun	144	2,400	200	139	1,741
1958					
Mar	283	3,800	317	112	4,590
Jun	289	3,800	317	110	4,760
Sep	297	3,800	317	107	4,950
Dec	305*	3,800	317	104	5,120
1959					
Jan	314	6,000	500	159	...

Source: Instituto Brasileiro de Economia (F.G.V.); reproduced from Conjuntura Econômica, January 1959.

In our opinion, however, if the creation of expectations regarding successive real increases in the minimum wage can be attributed to Vargas,

1. See Conjuntura Econômica, January 1959.

such expectations' were fuelled by the developmentalist euphoria which had characterized the Kubitshek government in its earlier years, and which had been made economically viable (in contrast to the Vargas years) by the high average rates of productivity in the manufacturing sector, which grew throughout the period at a much quicker rate than real wages, whether in terms of the minimum wage or the average wage in that sector.

To summarize, the demands put forward by the organized sectors of the working class, and made politically potent by the presence of the PTB in the ruling coalition, made it clear that although that class was one of the sectors which was being left behind in the process of accelerated development, tolerance for income inequality was kept within certain bounds, and was tending to decrease.

The decision of Congress, sanctioned by Kubitshek in January, had the effect of boosting inflationary expectations, further re-inforced by an increase in some public utility prices shortly thereafter. Thus in the face of tighter money and credit policies (and especially a reduction in loans from the Banco do Brasil to the private sector), and given the devaluation of certain import rates of exchange, wage policy contributed to the creation of a liquidity crisis around the months of April and May.¹

Despite Kubitshek's energetic declarations in January that budget expenditures would be restricted to the "bare essentials", by May the current deficit stood at 30 billion cruzeiros - three times that projected by the PEM for the year. In addition to the factors cited above, this was the result of a) the Congress failing to vote significant increases in taxation in the first session of 1959, and b) the fact that the government's principal source of financial resources - the foreign exchange auction receipts - had proved insufficient to finance the 1958-9 coffee harvest from the end of the first semester onward, as the cost of the operation (22 billion cruzeiros)

1. See Conjuntura Econômica, Nos. 1-6, Jan-June 1959.

outstripped the returns, despite a dramatic increase to 8.6 billion cruzeiros in the first trimester, with 3.6 billion in March alone.

The pressures responsible for the rapid expansion of the means of payment from that time onward were the Treasury deficit and the pressures from the private sector upon the Banco do Brasil and the commercial banks.¹

*

3.4 Entrepreneurs and the técnicos

One of the most significant aspects of the reaction of the private sector to the liquidity crisis was the campaign against estatização, the basis of which was undoubtedly the increasing share of government borrowing from the banking system in comparison with the relative austerity of the credit policy of the Banco do Brasil toward the private sector.²

What was ignored in this campaign, however, was the fact that the alternative source of finance for the government - increased sources of taxation - had been blocked, and that the fiscal reform in the terms proposed by the PEM had proved politically inviable, as we shall see, in part because of the resistance of the private sector itself.

The Target Plan, too, was attacked by the private sector, through the National Confederation of Commerce and the CNI. In the face of mounting opposition to "discrimination in favour of public investment" Campos was obliged to return to the headquarters of the National Confederation of Commerce in April 1959 to make a further defense, in somewhat resigned tones, of the investment policy pursued by the government and of the advantages offered by the proposed fiscal reform as far as the accumulation of capital by private companies was concerned.³

In our view, however, to judge by the document published by the CNI

1. Conjuntura Econômica, May 1959.

2. Conjuntura Econômica No.3 (March 1959) and No.4 (April 1959).

3. See Digesto Econômico, in May-June 1959.

months before, in December 1958, and by earlier articles published in the journal of that organization, the liquidity crisis only gave added impetus to the politicization of the economic issues at stake. In the document we shall now discuss,¹ the objections to the PEM from the técnicos associated with industry and the proposals for an alternative economic policy may be seen to have very far-reaching implications, because they questioned, albeit indirectly, the feasibility of a project of accelerated development within the framework of the social compact.

The most striking feature of the document is its defence of inflation, identified with "the unlimited expansion of the means of payment" (and of a non-selective credit policy) as a permanent mechanism for the accumulation of capital, or, conversely, as a favoured device for curbing consumption levels among classes on fixed incomes and "particularly the wage-earning classes". In addition to the fact that, as the authors of the article stressed, this was the manner in which industrialization had been financed in Brazil ("the historical option"), the efficiency of inflation as a mechanism of forced saving, geared to channelling resources into productive investment, was defended in terms which can be summarized as follows: While conditions of underdevelopment persist characterized by the fact that the scarce factor is capital rather than labour, and by the low degree of bargaining power of the wage-earning classes, expansionist policies constitute the principal option available to the authorities in order to increase the rate of investment in the economy.

It is interesting to note that the adoption of a "structuralist" approach to economic policy-making is revealed not only in the insistence upon the specificity of the underdeveloped countries, but also in the rejection of "the neutrality of monetary policy" and in the permissiveness in relation to inflation. The approach is explicitly stated, to be equidistant

1. See Desenvolvimento e Conjuntura, December 1958, pp. 45-90.

between the position of the "radical" structuralists and that of the monetarist group of Gudin and Bulhões, and resort to the arguments developed by Kaldor against Lionel Robbins: both economists had been in Brazil in 1957, at the invitation of the BNDE-CEPAL group and the Fundação Getulio Vargas respectively.

In this sense, the resort to the authority of Kaldor (and to that of Bresciani-Turroni) provides a further example of the manner in which technical expertise was mobilized politically - this time in the service of the interests of industrial entrepreneurs. The argument developed by Kaldor in the lecture published in Brazil was that inflation in developing countries, in contrast with developed countries, constituted a permanent mechanism of forced saving, in view of the relatively weaker power of the trade unions. The same argument was developed at length in the CNI document criticizing current official wage policy on the grounds that the re-adjustment of the minimum wage above the level of inflation was "politically determined", or decided by governmental fiat. In other words, the policy corresponded neither to the level of political development of the wage-earning classes, nor to the prevailing conditions in the labour market.

The basic objections to the PEM were concentrated on a number of specific points. Firstly, that inflation had not become unproductive as a mechanism for capital accumulation, given the low degree of bargaining power of wage-earning groups. Secondly, that the assumption of the full utilization of factors which underpinned the PEM was false, because the labour market in Brazil was characterized by an abundance of labour, in contrast with a dearth of capital which set "the upper limit of development". Thirdly, that the government approach to stabilization was similar to that of the "monetarist" Gudin-Bulhões group, with the difference that it "confused development with the Target Plan", establishing discriminatory practices "in relation to certain investments ... favouring the public sector". Fourthly, in response to argument put forward in the PEM, that given the prevailing exchange rate

system internal disequilibrium acted as a disincentive to exports. Authors of the document claimed that the only beneficiary of the 1953 exchange reform was the government. Finally came the most significant complaint: that the authors of the PEM had condoned the "artificialism" of the wage policy.¹

It is worth quoting at length some of the relevant passages from the document, as they provide the analytical framework into which the alternative proposal of stabilization-cum-growth policies was inserted:

"There is no doubt that the thesis of the monetary neutrality of credit for production has little scientific foundation... It is equally clear, however, that it constitutes the fulcrum of the "ideology" of developmentalism in Brazil... We would say that the system of unlimited credit for production has constituted until today, despite its drawbacks (which are those of inflation) the cornerstone of our development.

.....

For the system of unlimited credit for production to maintain its efficacy it was essential that the groups affected (principally wage earners) should accept periodic reductions in their purchasing power... The institutional conditions of Brazil assured the functioning of the mechanism over the longer term. Now, in the light of recent theoretical advances, it would be legitimate to argue that in developing countries the mechanism of forced saving (and therefore the system of unlimited credit for production) finds conditions to function in a permanent manner rather than merely transitorily as in areas of advanced capitalism" (pp. 49-50).

The necessary conditions for the permanent functioning of inflation as a mechanism for transferring real resources from groups on fixed incomes, and from wage-earners in particular, to entrepreneurial groups, are described in the following terms:

"In underdeveloped countries, however, the situation is entirely different. Given that the scarce factor is capital, the full utilization of factors and the consequent appearance of inflation do not produce any increase in the "bargaining power" of classes on fixed incomes. The inflationary process can therefore continue indefinitely, without the workers having any chance of an effective

1. It seems, however, that the document reflects the opinion of the industrial sectors who were less directly benefitted by the packages of incentives associated with the Target Plan. This is evident from the explicit rejection of a selective credit policy, the defence of the unlimited expansion of the means of payment, and the veiled attacks on the Target Plan. Our hypothesis, therefore, is that the document particularly reflects the opinion of businessmen who did not enjoy direct access to state favours, or in other words the more traditional sectors of industry, who, within the sector, had been "left behind".

reaction, given the abundance of labour available in the market. Whence one concludes that in contrast to what happens in the developed countries, the formation of forced monetary saving (that is unlimited credit for production) can be prolonged indefinitely, or for at least as long as the country is underdeveloped" (p.50; emphasis in original).

However, the authors of the article recognize that if something along the lines they suggest was in fact attempted, "we would move into a state of social revolution", and "resistance to the fall (in wages) would come not through bargaining power but simply through revolutionary violence":

"From which it is inferred that it is possible to maintain indefinitely the system of forced monetary saving (or of unlimited credit for production) but with the condition that the periodic decline in the nominal wage (sic) should be kept within certain limits" (p.51).

To judge from the alternative proposal of stabilization-cum-growth policies derived from these principles, it is possible to detect with clarity for the first time the emergence of a political stance among industrialists combining developmentalism with a strong anti-popular bias.

As regarded the resurgence of inflationary pressures, the principal cause, in accordance with the document, was the "political" increase in real wages, which obliged the monetary authorities "wishing to maintain the rhythm of development of the country" to expand credit to enable the firms affected "to maintain their investment funds", or even to grant "even larger loans for the new investments thought desirable". However,

"the fear of hyper-inflation made it impossible for loans to be expanded in sufficient proportions to nullify the harmful effects of wage increases upon the rate of investment... Meanwhile the wage policy cannot be entirely neutralized by an even more rapid increase in prices, in view of the restrictive measures of price control..." (pp. 53-5)

In a similar fashion, the deterioration of the terms of trade from 1954 on, the principal cause of the external imbalance, was attributed to the adverse effect of the downward pressure on the global rate of investment.

The conclusion of the diagnosis of the causes of external and internal disequilibria was therefore that "the savings effort should be intensified in order to compensate for these losses" (p. 57).

The policies proposed were as follows. The assumption that alternative sources of financing for industry should be found, given that "the entry of external resources is only a palliative", dictated a restructuring of the system of taxation in such a manner that the new taxes would fall exclusively upon consumption, or in their words, "upon the whole community". The proposal of a fiscal reform of a regressive nature, excluding new burdens on income tax as it would hit the sectors most likely to invest was made in the following terms:

"Students of the subject have demonstrated that the way to obtain a contraction in global demand is through the institution of taxes of a regressive nature. It is necessary to insist, therefore, in the case of Brazil, on the consumption tax. The income tax emerges as a very dangerous alternative, as it tends to capture private savings, thus reducing investments. The taxing of income would be at best neutral, in the case that the government devoted the resources obtained exclusively to investment" (pp. 81-2)

As regarded wage policy, the argument advanced is more complex. The point of departure is that the abundance of labour in Brazil is reflected, inter alia, in a surplus in agriculture, which moves into the towns and puts pressure on the labour market, preventing real wages from rising:

"The fact that these are constant does not necessarily signify the stagnation of the average wage all over the country. The best conclusion is that the global average salary in Brazil is rising as a result of the migration of workers from the low remuneration zone (the primary sector) into the high remuneration zones (the secondary and tertiary sectors)".

On this basis, the authors propose redistribution from a sectoral and regional point of view, combined with severe wage restraint in industrial areas:

"In our case, let it be said in passing that holding wages constant in urban centres is of particular importance as a means of avoiding the aggravation of tensions arising out of disparities in regional development. It is accepted today that such disparities in income or production per capita (which range from 1 to 7 for the extreme points on the scale, Piauí and São Paulo respectively) should remain and increase... The way to avoid the intensification of the social and political tensions which result ... would be to ensure that the level of consumption and therefore the real average wage in the industrial areas remained constant or grew more slowly than production per capita...

On this reasoning one can understand the absurdity of the recent increases in the minimum wage, which make official and necessary the imbalance between the standards of living in the different regions of the country" (pp. 82-3, emphasis ours).

A number of conclusions emerge from our perusal of this document. The first is that it reflects a phenomenon which is paradoxical, but nevertheless forms part of a recurrent pattern already identified among the coffee growers. On the argument that "there exists in Brazil an austerity mechanism within the labour market itself" economic liberalism can be dispensed ad hoc in homeopathic doses in defense of the particular policies of interest to the sectors affected; at the same time it is combined with the expectation that the traditional "intervention syndrome" can be reactivated when necessary: the intensive use of the economic policy instruments at the disposal of the government to direct and channel the inter-sectoral transfer of real resources. Thus, not without reason, there is no criticism in the document of the prevailing exchange regime, except as an example of the increasing appropriation of financial resources by the government. The second conclusion is that the resistance in Congress to the restructuring of the system of taxation, insofar as income tax is concerned, corresponded to pressure from business lobbies representing trade and industry. Thirdly, the document is indicative of the dilemmas faced by the policy-makers in 1959, as given the commitments associated with the maintenance of the PTB-PSD party coalition, and the expectations generated by accelerated economic growth, an ultra-conservative wage policy was out of the question, as the PEM explicitly recognized.

To summarize, in view of the contradictory political pressures which made inviable a fiscal reform that was moderately progressive in comparison to the proposals of the industrialists, and at the same time made it difficult to adopt a conservative wage policy, the conciliation of continued development and continued political stability would be achieved at the expense of renewed strains upon the budget and upon the balance of payments.

There is an additional aspect of the CNI proposals which is relevant to our argument. They allow us to document the manner in which the stabilization conjuncture of 1959 brought to light new alignments taking place in the camp of the técnicos desenvolvimentistas. From this point on the political spectrum would include those who favoured the continuation of the Target Plan in combination with an accommodation of the demands of the IMF (Campos and Lopes), the "left" structuralists, who went on to defend openly policies of a protectionist and moderately redistributionist nature, and the técnicos of the CNI, some of whom had previously been associated with the Clube dos Economistas. In the case of the latter, given the socio-economic content of their proposals, it is possible to say that they represented an ultra-conservative position, to the right of the PEM, in that they wished to make a tabula rasa of the political commitments which served to maintain the support base of the Kubitschek government: the trade union leadership and the PTB-PSD alliance in Congress.

Among the structuralists themselves, on this occasion, in a conjuncture of economic uncertainty, the points of convergence of an analytical nature in the approach to policy-making were shown to be of secondary importance in comparison with the more fundamental political differences over the direction to be given to capitalism in Brazil, and especially the dimensions of democracy in Brazil. Of course, these differences reflected the political imperatives of the systems of alliances into which the different técnicos found themselves inserted.

*

4. The Politicization of economic issues and its impact on the ruling coalition: Técnicos and Políticos

The politicization associated with the debate over the PEM was dramatized by the low profile of the IMF, which having adopted a "wait and see" policy from the beginning, ended by officially objecting to the gradualism of the PEM a fact which explains the criticisms advanced by Campos himself, to

that body later on quoted at the start of this section.¹ In May and June, in the face of growing tensions between the Brazilian government and the IMF, the process of politicization within and outside the decision-making system, took a new turn, which can be termed a revival of the nationalism which had cemented the united front between the trade union leadership mobilized against the IMF, and the professional politicians in the PTB-PSD alliance in Congress.

To judge by the Congressional debates between the 10th and 27th of June, 1959, in the wake of the breaking off of negotiations between the IMF and the Brazilian delegation,² the leadership of the PSD, and particularly Alkimim and Lafer, joined forces not only with the PTB, but with a new-born coalition of radical nationalists, The Frente Parlamentar Nacionalista (FPN). The defense of the Target Plan and of the prevailing exchange regime acquired nationalist overtones even among the representatives of the PSD, in the face of the vociferous criticism of the opposition UDN. With few exceptions, the UDN deputies presented the Target Plan and monetary stability as mutually exclusive options.

To judge by the document issued by the national Convention of the PTB, which took place on 4th May, 1959, and subsequently read in the Congress, the PTB deputies were making more far-reaching proposals: controls on repatriation of foreign capital (a five-year moratorium), anti-trust legislation, and so on. In the meantime, the representatives of the PSD took some strikingly nationalistic initiatives. A deputy from Pernambuco read a note from the Minister of War, Marshal Lott, relating to the demands made by the Fund: "The

1. For a detailed account of the main points of divergence between the IMF and the proponents of the PEM, see Skidmore, p.178. In the negotiations IMF experts referred to the PEM, "as a token that there had never existed such a thing as a Stabilization Plan, Marcilio Marques Moreira, Interview 6/12/1981.

2. Diário do Congresso Nacional, May-June 1959.

International Monetary Fund was demanding from Brazil an obedient acquiescence, as if it were dealing with an insolvent nation" (12th June), while Lafer, in the name of the majority, delivered a defense of the official note from the President on the same subject:¹

"In their contacts with the Brazilian negotiators, the officials of the Fund insisted on the adoption of certain measures of whose desirability the Brazilian government is the only judge. In fact some of them would have had a substantial effect upon the cost of living, with social disturbances as a consequence threatening to the peace of the country. After verifying the fact that the negotiators could not alter the opinions of the IMF officials, the President gave the order for them to return to Brazil".

The demands of the IMF listed by Lafer as points over which there was conflict are indicative of the situation which had arisen: liberalization of imports, a substantial and immediate devaluation, and the payment of the financial commitments assumed by the government at the free rate of exchange, "which would disrupt the budget" and "double the deficit". Lafer's conclusions, reproduced below, can be described as those of a developmentalist industrialist attentive to the political commitments made by Kubitschek's government:

"The Brazilian government is ready, with the co-operation of Congress, to achieve a balanced budget in 1960.. The government also agrees with the restriction of credit, but of speculative credit. What will not be allowed is the reduction of the production of goods necessary for the people, through the unjust and blunt weapon of the limitation of credit".

To summarize, one of the conclusions to be drawn from the Congressional debates is that the campaign against the IMF united the sectors of the PSD who had participated from the beginning of the decade in the process of decision-making which had culminated in the model of associated development (cosmopolitas such as Lafer), professional politicians of a traditional stripe such as Alkmim, the moderately nationalist sectors of the PTB, and the more radical members of the Frente Parlamentar Nacionalista. Skidmore's comments on the period should therefore be qualified, to the extent that he over-estimates the power of the radical nationalists and particularly of the

1. Ibid., June 1959.

Communist Party in the campaign.¹

A second conclusion is that in parallel with the rearrangements observed in the universe of the técnicos in the stabilization conjuncture of 1959, a rearrangement took place in the political coalition which had served as a support base for the new pattern of accumulation initiated with the Target Plan. The Técnicos Roberto Campos and Lucas Lopes distanced themselves from the circle of professional politicians around the President, including Lafer, putting an end to an alliance that had been in existence since the end of the 1940s. Finally, to judge by the dignified ostracism into which Campos and Lopes were cast (an ostracism which led to the adoption of increasingly ad hoc and inconsistent policies in what remained of Kubitschek's period of office), it seems possible to advance another argument in favour of our initial hypotheses in relation to the role of the técnicos in the political system before 1964.

The episodes of 1958 and 1959 reveal that in the face of the government attempt to implement stabilization-cum-growth policies, the power of the professional politicians in the executive and in Congress, and of the business lobbies, in combination, undeniably, with the organized sectors of the working class, was strong enough to undermine the position of the chief architects both of the Target Plan and of the PEM.

On the other hand, if it is legitimate to argue, on the basis of Congressional debates in the early Kubitschek years and of the political strategy underlying the Target Plan, that the Legislature had very little influence in the process of policy formation, it is equally undeniably that in conjunctures of economic uncertainty in which institutional reforms had been at issue (1954 and 1959) it was able to exercise a "veto power" which hampered effective stabilization action.

See Skidmore, pp. 177-8.

Concluding Remarks

The conjuncture of 1959 was decisive for a number of reasons, which will be enumerated here, in the light of the evidence advanced throughout the chapter. Firstly, the external operations of the Brazilian authorities had become, for the first time one of the major sources of high-powered money, reaching 28.9 billions of cruzeiros in 1959 against a - 13.0 in 1958 along with Treasury operations (31.8 billions in 1959 against 19.0 in 1958) and the loans granted by the Banco do Brasil. The expansion of the monetary base reached its peak in 1959 61.3 billion cruzeiros against 13.5 billions in the previous year and 58.9 billion one year later. At the same time the tendency for over-reliance upon external debt was intensified as the rise in the price of foreign exchange in the auctions prompted the execution of swap operations rather than the withdrawal of foreign currency from the financial market. In the short term this made it possible to maintain a stable exchange rate in the two exchange markets (special and general), and to obtain additional resources in national currency as a result of the differential between the sale price of currencies in the general market and the rate at which swaps were negotiated. The choice of course imposed costs in terms of the debt burden, as it increased the volume of short-term commitments, for which the corresponding foreign currency was not held.¹

Secondly, as a result of this the inflation-cum-overvaluation scheme as a means of transferring resources between sectors and from wages to profits not only had its lifespan prolonged but reached its peak during the Kubitschek period. A renewed burst of capital accumulation was made possible while at the same time accommodation was made for the interests of the two sectors which had been left behind in the process of accelerating growth, the coffee growers and the urban working class. A consideration of the role of Congress

1. See Malam, Foreign Exchange Constrained growth, pp. 148-150.

in the relevant episodes suggests that the postponement of stabilization action was the result of an effort to hold the social compact together, and hence to ensure the legitimacy of the Kubitschek government, while at the same time achieving high rates of growth and structural diversification in the country.

A third conclusion relates to the economic hypotheses advanced by O'Donnell, for the Kubitschek period provides a strong case against the theses advanced by him, in two senses. Firstly, the more advanced stages of industrialization - partial internationalization of the production of capital goods and of basic inputs - were reached at the same time that expansionist policies were adopted, which allows us to discard the hypothesis that the "deepening" stage of import-substitution corresponds directly to specific policies of an orthodox stamp.¹ Secondly, as intensive industrialization was made possible within a system of class collaboration - although it was not combined with any kind of redistribution in favour of the popular sectors - it seems possible to reverse O'Donnell's thesis in the light of the Brazilian case. In other words, one might say that inflationary governmental behaviour and escalating indebtedness were the price paid by the Brazilian authorities for further industrialization within a democratic framework, in a political system regulated by the parameter of class conciliation.

In this connection, it is worth quoting at some length from Kubitschek's address to the National Economic Council, given shortly before he left the presidency. After a brief analysis of the dilemmas which confronted his government, cast purely in ECLA terms despite the fact that he was visiting one of the strongholds of técnicos of a neo-liberal persuasion,² he pointed

1. O'Donnell: On the General trends of Change in the Bureaucratic Authoritarian state. For a thorough criticism of O'Donnell's thesis on this specific point see Serra, "Three Mistaken Theses" in Collier, The New Authoritarianism, op.cit.
2. Kubitschek's address to the Conselho Nacional de Economia is an interesting document not only because it is visibly structuralist in its approach to inflation and to balance of payments developments in his period, but also because it is more explicit than his farewell address to Congress on the political constraints which we are seeking to reveal. For the text see Revista do Conselho Nacional de Economia Year 10, Jan-June 1961.

to the limits imposed to an efficient management of inflation by the democratic framework:

"I shall now examine the problem of inflation in my government. Perhaps it is worth emphasizing the fact that I can only assume responsibility for the actions of the federal executive power. Thus when I speak of "my government" I shall essentially be referring to the decisions of the "executive area" of central government. As the independence of the powers is the essence of our democracy, the President of the Republic does not legitimately enjoy the glories or assume the responsibilities of the initiatives and decisions of the other powers, whether federal state, or municipal, although he obviously accepts, to a certain point, the need for co-ordination between them.

I should like to begin my making it clear, once and for all, that I consider the general and constant increase of prices extremely harmful to society, and to be restrained and avoided as far as possible. My programme of targets represented a modest share, oscillating between 4 and 6 per cent, of GNP, and therefore fell well within the savings capacity of the country. Between 1958 and 1961, the period of the major investments, only 40 per cent of them weighed upon the public budget of the federation, and more than half of this expenditure by the Union came from special funds, built up from ear-marked contributions or from resources stemming from constitutional requirements, and were therefore expenditures covered by receipts. Thus the resurgence of pressure toward the deficit and toward inflation in recent years comes principally from factors unconnected with the Target Plan."

PART TWO

THE GROWING PAINS OF POLITICAL AND ECONOMIC UNCERTAINTY
AND THE RESUMPTION OF INFLATIONARY GOVERNMENTAL BEHAVIOUR,
1961-1963

It is long and minute; but the pathetic,
almost always, consists in the detail of
little circumstances.

Gibbon.

INTRODUCTION TO PART TWO

The principal objective of the next three chapters is to reconstruct the situation of acute economic uncertainty which prevailed at the beginning of the 1960s, and which was characterized by the combined phenomena of a slowdown in general economic activity, an upsurge of inflation, and the prospect of a balance of payments crisis, and came to be seen as unmanageable within a democratic framework. We will be concerned mainly with the conditions which explain the failure of the Three Year Plan six months after it was launched, and the subsequent abandonment of any attempt at stabilization on the part of the government, from September - December 1963 onward.

The basic question to which we seek to respond can be formulated as follows: To what extent was the viability of the technically feasible solutions advanced in the plan restricted not only by the existing institutional framework as had been the case since 1959, but also by the changing political background against which any proponents of stabilization had to act?

This formulation imposes a need to justify the emphasis given here to the analysis of the changing nature of the political constraints to economic policy-making in the period August 1961 to January 1963, as a prelude to an account of the issue which interests us: the contrast to be observed between the policy guidelines of a plan envisaged as a political tool to reduce economic uncertainty, and the results obtained in practice. Naturally, this is not to ignore the economic expediency of the prescriptions made, to be examined in Chapter V. The issue will be discussed as an aspect and integral part of the analysis of the history of the period from January to December 1963. Our contention is, then, that an approach to the shifts of economic policy-making in Brazil restricted to an evaluation of the technical rationality of the plan assumes that an alternative 'correct' package of prescriptions - if available - would have been viable within the existing political and institutional framework. More important still, it tends to

omit any consideration of the extent to which past policy choices which produced a re-acceleration of the process of inflation and additional strains on the balance of payments from 1959 onward and with growing intensity in 1961 and 1962 contributed to the politicization of the main economic issues involved. This process of politicization becomes explicable, however, if related also to the fact that the declining prospects for growth since 1961 provided the material basis for the increasing intolerance of income and regional inequalities manifested by the sectors left behind throughout the expansive phase of the economic cycle.

In the circumstances, to restrict an approach to policy-making in the early 1960s to the analysis of the technical rationality of the relevant policies is to fall into a species of reductionism which renders illegible the 'writing on the wall'. In other words, it tends to depoliticize a process of policy formation whose principal characteristic is that it evolved in an increasingly conflictive context. The major challenge facing the analyst is the need to determine the extent to which the processes of decision-making were affected by the ever-changing pattern of alliances between different political actors within and outside the decision-making system, under the spur of calls for a multiplicity of 'antagonistic tasks'.

Thus although it is beyond the scope of this work to provide an exhaustive reconstruction of the more complex processes which led to regime breakdown in Brazil, let alone a full explanation of them, we are concerned with the emergence of the first of a new breed of bureaucratic-authoritarian regimes in Latin America. This is because, as in the case of subsequent experiences, the period of 'economic mismanagement' and intensified political mobilization which followed the postponement of stabilization action provided a major rationale for the process of legitimation of the new ruling coalition of civilian and military bureaucrats which took power in 1964.

We should make explicit here, therefore, the specific analytical

assumptions and hypotheses which underlie our approach to the general questions discussed above. A consideration of the conditions required for achieving political management of internal and external disequilibria within a democratic framework may provide a convenient starting point. The implementation of a package of stabilization-cum-growth policies geared to giving long-range direction to capitalist development, as exemplified in the Three Year Plan, represented a severe test for the capacity of the ruling coalition to exercise the function of government. It did not depend only on its capacity to convert into policy goals the demands of the socio-economic sectors which conferred legitimacy upon it, whether through the ballot box, active support from interest groups, or the breadth of organized social movements, although this undoubtedly provides the measure of its comparative representativity. Beyond this, the success of the relevant policies depended also upon the conditions which made possible the articulation of alliances within the political system of decision-making, through a complex process of negotiations and accommodation of the interests involved. The aim of this process was to confer legitimacy upon the conversion of policy goals into economic policy initiatives.

The difficulty facing the analyst of the period is that of accounting for an apparent paradox: the growing representativity of Goulart's party, and of the party system as a whole, corresponded to a decreasing capacity to govern on the part of the PTB and of the majority congressional bloc formally committed to support the initiatives of the executive. It is necessary therefore to analyse the conditions, rooted in earlier periods, which narrowed the range of alternatives around which agreement over economic strategy could be reached, whether under the auspices of the political understanding which legitimized the Kubitschek government, or on the basis of a new 'social contract' between executive, legislature, and the leaders of the labour organizations.

These considerations lead us to a first set of hypotheses which can be formulated as follows. The period between January and June 1963 can be characterized as a special conjuncture in a continuum of successive conjunctures of political uncertainty which preceded it, in the sense hitherto adopted here. That is to say conjunctures in which one observes an intensive process of redistribution of political resources within and outside the decision-making system and the articulation of new modes of alliance between certain sectors of the ruling elite and the sectors excluded from the decision-making process. In contrast to preceding conjunctures of uncertainty, those which took shape since Quadros take-over in January 1961 were characterized by three types of developments, whose dynamic and interaction are relevant to our present purposes. The first of these was the conversion into political actors of the hitherto marginalized sectors of what has conventionally been called the 'populist pact', as a result of the emergence of social movements in the countryside. However, this development is relevant to our purposes only to the extent to which it affected the process of policy formation as the government included in the field of policy priorities issues which affected the existing balance of economic and political power: the extension of social legislation to rural workers, the question of land tenure, and the enfranchisement of illiterates. The second development concerned changes in trade union leadership, which from 1961 onward led to a changing pattern of relations between labour organizations and the state, and increased priority attached to the 'antagonistic tasks' such as structural reforms. Thirdly, was the crystallization of new alignments within the political system, first glimpsed during the parliamentary interlude (of August 1961 to December 1962) which institutionalized a new pattern of relations between the executive and the legislature. From that point on, recurring and protracted deadlocks between the two power blocs were produced.

A final consequence was the disruption of the political pact which assured the central government the support of the governors and/or regional oligarchies of the politically and economically most influential states in the federation.

Our central hypothesis can now be formulated. It is that the processes which were responsible for the intensification of the strains were inherent within the social compact itself. Once the compact was subjected to acute economic stresses and to the pressures of increasingly better organized and articulated opposition groups and to the stresses derived from the executive commitment with structural reforms, the inevitable result was the progressive weakening of the government. These processes, in our view, are at the base of the inability of the government presided over by the PTB to articulate a system of alliances of a centre-left nature among the major political actors who were expected by the architects of the Three Year Plan to provide political support for its implementation: the President, the trade-union leadership, and a new party coalition in Congress and within the executive.

Part Two consists of three chapters. In chapter V we set out to analyze the nature and scope of economic constraints to which policy makers of differing persuasions had to defer from 1961 onward, in order to explain in this light the failure of the flawed policy solutions attempted before the Three Year Plan was introduced. This will provide the background within which we will examine the plan both as a coherent set of stabilization-cum-growth policies and as a mode of perception of the técnicos nacionalistas of the requirements imposed by economic necessity. In chapter VI we attempt a systematic explanation of the build-up of political constraints to the implementation of the plan, mentioned above, for the period 1960-1962. Finally in chapter VII we provide an analytical history of the period in which the Plan was implemented, from January to December 1963.

CHAPTER V

THE ECONOMIC CONSTRAINTS AND THE NEW DIRECTIONS OF ECONOMIC POLICY:

1961-1963

1. The Performance of the economy in 1961-1962: long-term factors and the role of economic policies.

Although the economic crisis which took shape in 1963 obeyed a dynamic of its own, a rapid examination of its causes and evolution from 1961 onward allows the elucidation of the extent to which the requirements imposed by economic necessity could be met within the existing institutional framework. In addition, to the extent that the re-acceleration of the inflationary process from 1959 onward and the acute strains in the balance of payments contributed to the loss of dynamism in the economy, it will be possible to determine the feedback effects of the policy choices which preceded the implementation of the Three Year Plan.

It should be recalled here that we are entering on to controversial ground, as the existing interpretations of the economic recession which lasted until 1967 fall into two distinct groups, each with various subdivisions and variants. On one side are those who give pride of place to long-term factors related to the 'development model' inaugurated in the earlier period.¹

1. For the initial formulation see Furtado, Subdesenvolvimento e Estagnação na América Latina, Rio, Civilização, 1968; an alternative proposal, based upon a critique of Furtado, is developed in Tavares and Serra (1971), in Tavares, Da Substituição de Importações ao Capitalismo Financeiro, Zahar, Rio de Janeiro, 1972, Part II, pp. 125-209. For a reworked version, see the later works of M.C. Tavares, particularly Acumulação de Capital e Industrialização no Brasil, Tese de Livre Docência, Faculty of Economics and Administration, Rio de Janeiro, 1974.

On the other are those who lay the emphasis upon the cumulative effect of the attempts at stabilization in 1961, 1962, and particularly in 1963, and thus concentrate upon the role of economic policy, and the negative effects on growth produced by priorities attached to containing the budget and practicing monetary and credit restraint.¹

It is beyond the scope of this work to attempt a critical review of the controversy. It is possible to by-pass it, however, as data provided by the most recent analysis of the period, that of Sochaczewski, permit us to explore with greater rigour the issue which concerns us.² This is the dynamic interaction between a) factors of a 'structural' nature linked to cyclical movements in the economy, b) the financial constraints upon the implementation of counter-cyclical policies by the state, constraints imposed by the existing institutional framework and aggravated by the re-acceleration of the inflationary process, and c) the undesired effects of the economic policy measures implemented in 1961 and 1961. For this reason we shall make considerable use, in the pages which follow, of the data upon which Sochaczewski bases his conclusions.

In the wake of the installation as president of Janio Quadros at the end of January 1961 came an abrupt shift in the orientation of economic policy, consisting of the attribution of the highest priority to reversing the process of inflation, and to finding a solution to the impending crisis of liquidity in the balance of payments before it became overwhelming. The speech of the new president-elect in October 1960 was characterized by savage criticism of the expansionist policies of his predecessor, a description

-
1. The best example of this approach, including a critique of Furtado and Tavares, is John Wells, "Growth and Fluctuations, op. cit.
 2. Sochaczewski, A.C., "Financial and Economic Development of Brazil, 1952-1968" (Ph.D. thesis, University of London, 1980.)

of the "terrible financial situation", and the vehement tones in which he accused previous governments of corruption and administrative inefficiency:

"This will be a harsh and unflinching government... Invested with the leadership of the executive power, I judge it my duty to make known what is being passed over to me, and the true condition in which it is being passed to me... The financial situation of Brazil is terrible... The figures are official.. it is imperative that the people mark them, learn them, and digest them inwardly: sacrifices are inevitable.. we have borrowed against the future more than the imagination dares to risk. .. What has been done.., what achieved sonorous returns in publicity, now has to be paid for bitterly patiently, dollar by dollar, cruzeiro by cruzeiro. Today it is necessary in this nation with a new façade, but an exhausted economy, that this people, oppressed by underdevelopment, ravaged by illness and pauperism, strip itself of its last cent to honour debts posted in the name of Brazil.... We shall sketch out the solution for the settlement of the obligations which press upon us...".

He continues, later, after a lengthy and somewhat confused exposition of the relevant figures

"Every bit as grave as the economic and financial situation appears to me the moral, administrative and socio-political crisis into which we are descending. The degree of dissolution we have reached derives in part from the crisis of authority and austerity in power, the prestige of which is compromised by a shocking series of official scandals, encouraged by the most horrifying acts of impunity". (1)

This account must certainly be read in the light of the fact, that although an 'outsider', in terms of the traditional party-political system, Quadros was the first candidate to be elected with the support of the united forces of the opposition, who mobilized the political machinery at their disposal on his behalf during the campaign. Equally, attention must be drawn to the elective affinities between the personal style of Quadros, with its emphatic moralizing, and the fund of ideas of the 'party of eternal vigilance', the UDN.² These circumstances render more comprehensible the exclusive

1. From O Estado de São Paulo, 1 February 1961.

2. This expression for which the UDN became famous, was derived from a statement made in 1945 by one of its founders, Virgilio de Melo Franco: "Our cult is of liberty, and its price eternal vigilance".

emphasis upon the negative features of Kubitschek's legacy in the rhetoric of the new President from the time of the electoral campaign onward. Even so, the sombre picture painted by him in his inaugural speech was based on figures which were alarming for the time: an annual rate of inflation of over 30 per cent, twice that of the annual average rate from 1950 to 1958; a global balance of payments deficit equivalent to US\$ 400 m, while exports were only US\$ 1,270m; an external debt of approximately US\$ 2.8 billion, of which US\$ 600m fell due in that year; and lastly a budget deficit calculated at CR\$ 108 m, equivalent to one third of projected income for 1961.¹

From that point on the over-riding concern of policy makers with the 'vulnerability' of the economy constituted the common denominator of the policies applied in 1961, 1962, and 1963. It should be noted, therefore, that the new orientation given to economic policy was to prevail despite the changes which took place in the political and constitutional setting, in 1961 under the aegis of the first government led by an 'outsider', in 1962, after the crisis created by the resignation of Quadros, under the new parliamentary regime which emerged as an ad hoc institutional solution to ensure the installation of then vice-president João Goulart in the presidency, and finally in 1963 after the plebiscite which legitimated the return to a presidential regime.

For our purposes it is necessary to draw attention to the characteristics common to the successive attempts at stabilization, despite differences of diagnosis and of treatment. Thus the identification of the budget deficit

1. See Malan, P., "A Política Econômica e Teorias da Balança de Pagamentos: Relações Internacionais do Brasil, Período 1946-1979", (Tese para Concurso de Titular, da Universidade de Rio de Janeiro,) p.91. However, as we shall see later, the figures for the external debt were not known at the time.

as the immediate source of disequilibria, the need to alleviate short-run strains on the balance of payments, and especially the attempt to have recourse to compensating finance from the IMF all underlie the policies of containment of public expenditure and credit and monetary restraint, and especially of the liberal exchange rate reform introduced by Quadros. We shall return to this point later.

What should be noted here is that the commitment of the government to the policies outlined above confirmed the exhaustion of the mechanisms through which the process of intensive industrialization had proceeded: the multiple exchange rate auction system, the budget deficits financed ;through expansion of the monetary base and an over-reliance upon foreign debt. It was by these means that it had proved possible to pass beyond the limits imposed by a backward financial system and mobilize the financial resources needed for development programmes.¹

Nevertheless, it is necessary to establish to what extent and in what way the growing difficulties in financing economic activity affected the poor performance of the economy in the period commencing in 1961. A first insight into this problem is provided by the commentary with which Sochaczewski introduces the issue; in his view, the re-acceleration of inflation and the successive stabilization measures aggravated a process already under way, whose causes were structural. He characterizes it as follows:

"In fact whereas in the period 1955-1959 the GDP growth rate averaged an annual 6.3 per cent, in 1960 it reached 9.7 per cent, peaking at 10.3 per cent in 1961... Nevertheless, the old theory of cycles tautology - ie, that a production and investment expansion is followed by a recessive cycle - was inevitable. From 1961 on the GDP rate fell abruptly and stayed for the next six years under 6 per cent, which can be roughly considered to be Brazil's historical rate.. In the first place there are those factors linked to the long-term movements of the economy ... trends in investment and productive cycles which can hardly be reversed by economic policy decision" (pp.185-6, emphasis ours).

1. For a description of the Brazilian financial system in the period before 1964 see Sochaczewski, op. cit.

In addition, the question of the financing of current expenditure and the investment is introduced in broader terms, going beyond the eventual financial squeeze imposed on the private and state sectors of the economy by the action of economic policy:

"One can perceive that both public and private sectors faced increasing difficulties in mobilizing financial resources for their current and investment expenditures. As far as inflation stopped functioning as a satisfactory capitalization mechanism, the pressure from enterprises upon the incipient financial system created strong tensions which were impossible to alleviate within the existing framework. It is then in such a situation that the deep fiscal, banking and financial reforms (carried out by the post-1964 policy-makers) took place in order to endow the economy with the financial instruments relatively independent of inflation" (p.187).

Set against this explanatory framework, the events discussed here become intelligible. Therefore the analysis of the contrast between the intentions and the results of the policies implemented in 1961 and 1962 should be set against a background in which the loss of dynamism in the economy is related in the first place to the variables which are responsible for the decline in the rate of investment observed from that year on.

The data in Table I relating to the rates of growth of GDP and of production in various sectors demonstrate not only that the downward trend began in 1962, but also that the period 1963-1967 was characterized by a prolonged recession:

TABLE I

Brazil. Gross Domestic Product and Sectors. Annual Growth Rates (%)

	GDP	Industry	Agriculture	Commerce	Transport
1960	9.7	4.9	9.6	5.9	17.3
1961	10.3	7.0	10.6	7.0	3.3
1962	5.3	5.5	7.8	5.8	8.4
1963	1.5	1.0	0.2	0.0	7.8
1964	2.9	1.3	5.2	1.1	1.6
1965	2.7	13.8	-4.7	1.7	1.8
1966	3.8	-14.6	9.8	7.4	6.6
1967	4.8	9.2	3.0	4.2	7.8
1968	11.2	4.5	13.3	12.5	8.9
1969	10.0	3.8	12.1	9.3	11.6

Source: FGV - Conjuntura Econômica - various issues.
In Sochaczewski, p.185.

The available evidence now reveals that the decline in the global rate of investment - the strategic variable as regards fluctuations in economic activity - dates from before, from 1960 in fact. In comparison with an average annual real rate of growth of 10 per cent between 1956 and 1959, the global rate of capital formation stood at 4.1 per cent in 1960, fell further by 1962, and became negative in 1963. This is revealed in Table II, in which it is possible to observe not only the global performance of investment, but also the evolution of investment in a disaggregated form, for central government, federal public corporations, and the private sector.

TABLE II

Brazil. Real Gross Fixed Capital Formation 1959/1965¹
1,000 cruzeiros of 1952 and Annual Changes

	Total		Government		Federal Enterprises		Private Sector	
	Cr\$	%	Cr\$	%	Cr\$	%	Cr\$	%
1959	179.7	-	23.6	-	9.7	-	146.4	-
1960	187.0	4.1	27.1	14.8	11.5	18.6	148.4	1.4
1961	196.6	5.1	27.0	- 0.4	15.7	36.5	153.9	3.7
1962	202.7	3.1	30.6	13.3	16.4	4.5	155.7	1.2
1963	197.0	-2.8	28.6	- 6.5	14.0	-14.6	154.4	-0.8
1964	201.9	2.5	29.7	3.8	11.0	-21.4	161.2	4.4
1965	196.7	-2.6	31.6	6.4	17.5	59.1	147.6	-8.4

(1) Deflated by FGV General Price Index

Source: FGV/IBRE/CEF O setor Público Brasileiro 1947-66, Caderno Estatístico RBE, Sep, 1969
Conjuntura Econômica - various issues

in Sochaczewski, pp.227.

In other words, we can speak of a cycle of investment coming to an end in 1961, although, as Sochaczewski points out, current production rose rapidly until 1962, as a consequence of the increasing utilization of installed capacity in the new industrial sectors, and in response to the demand which

1
existed for the new products now produced internally.

For our purposes it is important to point out that the financial constraints on maintaining the rate of investment play a determining role in the case of the central government. Naturally, investments from this source, alongside those in public corporations, might have performed an anti-cyclical function in the face of the declining "confidence of the private sector", but this did not happen in fact.

1.1 The Private Sector and Public Corporations

In the case of the private sector, the causes of the declining rate of capital formation are not directly attributable to the financial squeeze to which it was eventually subjected in a sporadic manner, in 1961, 1962, and particularly 1963, as we shall see, as a result of the restrictive monetary and credit policies applied in those years. The decline is explicable in terms of investment decisions taken in earlier years, and following an economic logic of their own. Once the necessities of the existing market had been satisfied, the rhythm of new investments in the leading sectors of the economy - durable consumer goods, of recent installation - came to depend principally upon the prospects for the expansion of current demand. This expansion could be met without increasing installed capacity, as the new

1. The data on excess capacity in the manufacturing sector used by Sochaczewski seem to confirm this hypothesis, and to illustrate the length of the recession:

% of Capacity Used in Manufacturing Industry			
Annual Average		1959/68	
1959	- 97	1964	- 87
1960	- 98	1965	- 76
1961	- 100	1966	- 79
1962	- 99	1967	- 73
1963	- 91	1968	- 78

in Sochaczewski, p.228.

plants had been endowed with a productive capacity programmed far ahead of existing demand. In fact, as we shall see, the restrictive policies of 1963¹ had a negative impact on the expansion of current demand in this sector.

It should be stressed however that although the arguments of a strictly economic nature adduced above also apply to the case of direct investment by foreign capital, as the durable consumer goods industries were concentrated in the hands of the multi-nationals, they are not in themselves sufficient to explain the abrupt withdrawal of the good will of foreign investors exactly in 1962. To judge from the figures available, direct investment was in decline from the first half of 1962, the period in which the debate over the participation of foreign capital dominated official circles and public opinion; it fell to US\$ 36m. against US\$ 154m and 116 m respectively in the first and second halves of 1961. At the end of 1962 direct foreign investment for the year totalled only US\$ 70m, the lowest figure recorded since 1955.²

These figures demonstrate that the year 1962 represented a turning point as regards the attractiveness of the Brazilian market to foreign capital, as a result of the increasing politicization of economic issues, made more acute under the parliamentary regime (see chapter VI).

From the time of the political crisis unleashed by the resignation of Quadros in August 1961, under the spur of a renewed upsurge of radical nationalist movements and a prolonged debate over the contribution of foreign capital,

1. This is not to say that political instability in the period which is the object of the next chapter, had no impact upon investment decisions, but as Sochaczewski points out, the impact of postponements of investment decisions arising out of such circumstances would have an effect only in later years. See Desenvolvimento e Conjuntura, Feb. 1962, for an analysis of the situation by técnicos linked to the National Federation of Industry.

2. Sochaczewski, pp.209-210.

the hitherto privileged treatment these capitals had received gave way to severe restrictions. In October 1962 Congress approved a rather restrictive profit remittances law, which included the following provisions:

a) mandatory establishment of a systematic register of inflows of foreign capital, b) the imposition of a legal limit on remittances abroad, of 10 per cent per annum profits on invested capital, c) the definition of "re-investment", considered as the difference between the 10 per cent maximum envisaged in the law and the amount actually repatriated, and d) the separate registration of the profits on that investment, to be excluded from consideration in future profit remittances. Before this, in February 1962, an American-owned enterprise in Rio Grande do Sul, a subsidiary of IIT, was expropriated on the initiative of Brizola, the governor of the state, and brother-in-law of Goulart. The conflictive nature of the action was exacerbated by the disparate evaluations of the amount of compensation due: US\$ 400,000 paid by the state government, in comparison with the US\$ 10m sought by the company.

The modification in the foreign capital regime and the debate which preceded it were indicative of the increasing prominence of the call for antagonistic tasks within organized social movements, and especially in the trade union leadership linked with the nationalist sectors of Congress exerting pressure in the same direction. These were other variables, then, which affected the behaviour of private investments.

The dramatic de-acceleration of the rate of investment in public corporations in 1962 (see Table II) was decisive in the unleashing of the recessive phase in the cycle, given the crucial role which such investments (as part of the package launched in the Plano de Metas) had played as a source of current demand for the capital goods and intermediate products industries. At the time of the Plano they had represented 8.2 per cent of the total of gross formation of fixed capital.

In contrast with an average real rate of growth of 35 per cent per annum in the period 1956-59, in 1962 the rate of growth of investments of this type fell dramatically, to around 4.5 per cent per year in real terms. This is explained for the most part by the completion of a set of major projects initiated under the auspices of the Plano de Metas, which was not compensated for by the programming of a new package of investments aimed at guaranteeing the maintenance of current demand for national industries producing capital goods and intermediate inputs. It appears however, that this was due more to the lack of foresight of the relevant policy makers than to any deficiency in financing.¹

1.2 The Central Government: financial constraints to investment and the institutional framework

If the decline in the rate of capital formation in private and public enterprises cannot be attributed directly to difficulties of financing, however, the same cannot be said where central government was concerned. In its case, the re-acceleration of the process of inflation dating from 1959 in combination with the commitment to stabilization action, figure as decisive short-term factors behind the financial squeeze which led to the cutting back of non-productive investment. Those processes highlighted certain 'financial' constraints which become meaningful only when related to the existing institutional framework. This will be discussed in connection with the policies implemented in 1961 and 1962, but also provides the background against which the course of economic policy at the time of the implementation of the Three Year Plan is to be understood. These constraints, which we shall now examine, can be summarised briefly. Firstly, the political non-viability of recourse to technically feasible solutions for the non-

1. Ibid., p.232.

inflationary financing of current expenditure and central government investment meant a consequent recourse to inconsistent and ad hoc measures to increase the flow of resources to the treasury. These measures were soon neutralised by the failure of the policies in question, and the subsequent resumption of inflationary governmental behaviour. Secondly, and directly related to the first point, there was a growing burden upon treasury resources represented by the renewed upward pressure upon central government current expenditure and the operating deficits of transport companies as inflation resumed its course. Thirdly, the lack of appropriate financial institutions meant that the authorities were unable to acquire effective control of monetary policy.

A first insight into these questions is provided by data on the net deficit on the central government capital account. The measure reflects central government savings (revenues minus expenditures in current account) after the deduction of items relating to gross fixed capital formation by central government, and grants and capital transfers to public enterprises. It allows an evaluation of the weight of the last two items in the deficit, which rose abruptly from 41.5 million cruzeiros in 1960 to 241.5 million in 1961, and 512.2 million in 1962.¹ To judge by the growing proportion of tax revenues represented by these figures, the taxation system was too inflexible to respond to the need to finance central government investment. This was clear by 1959, and it became a crucial bottleneck by 1962. Investment expenditures were equivalent to 5 per cent of tax revenues in 1958, rose to 12.5 per cent in 1959, held stable at 11.9 per cent in 1960, and climbed dramatically to 50.9 per cent in 1961, and 71 per cent in 1962.²

1. Ibid., p.230.

2. Ibid., ibidem.

Familiar political factors were responsible for this continuing restraint upon non-inflationary financing of investment. As in 1959, Congress blocked, by veto or by inertia, the approval of a number of projects for fiscal reform, with deputies from all the leading parties refusing to give the support for the reasons outlined in the previous chapter, and with an eye to elections due to take place in October 1962. In contrast to 1959, however, it now proved impossible to circumvent this difficulty by financing government investment through an expansion of the monetary base, for the re-acceleration of inflation from this time on meant that the current expenditure of the government was driven upward, particularly as regarded civilian and military salaries. Inflation also created additional burdens on the costs side, as a result of the rapid increase in operating deficits in the public transport sector.

Political constraints upon the reduction of expenditure of this nature had a direct impact on the growing treasury deficit. Governments exposed to competitive elections generally find it difficult to institute wage restraint, and with the renewed acceleration of inflation a hitherto tacit and occasionally operated mechanism of 'indexing' salary increases for civilian and military functionaries to those received by various categories of workers was made explicit from 1960 onward. Even by the end of the Kubitschek period the question of 'parity' (the preservation of differentials between these groups) had become a major policy plank. (see next chapter). With the working class more able to defend itself, adjustments of the minimum wage were more frequent after 1959, and it held its value until 1961, before declining to 15 per cent below its 1955 value in 1963. From 1960 onwards, such demands set off chain reactions: against a background of strikes among various categories of workers in pursuit of increased wages through 1961

and 1962 Congress, the arbiter of increases for civilian or military functionaries, had no option but to yield to the pressure of one of the best-organized lobbies in the nation. Increases granted by Congress over and above those envisaged in budget recommendations from 1961 to 1963 explain much of the consistent disparity between budgeted and actual expenditures; they account in part, also, for the failure to make the desired reductions in current expenditure.

In addition, the deficit in the public transport sector accounted for 12 per cent of total revenues in the period 1958-1960, and 19 per cent in 1961,¹ reflecting the traditional political constraints on the adjustment in the price of public utilities in line with rising costs. The most conspicuous example was the rail transport network, whether in suburban areas and serving middle and working class districts, or in depressed regions for the most part near to territories dominated by local caciques.² The capacity for self-financing was restored to these deficitary enterprises only as a result of a thoroughgoing reform in the pricing system of public utilities carried out in 1964, in combination with massive cuts in personnel budgets and hence numbers employed.

As in the case of tax reform, then, political calculations of an electoral nature within the framework of a democratic regime obeyed a logic foreign to macro-economic rationality, under the bureaucratic-authoritarian regime, such calculations were to be ignored.

Finally, to conclude this review of technically feasible solutions which

1. Sochaczewski, pp.199-200.

2. This latter case, the traditional difficulty of increasing public transport charges, illustrates one of the mechanisms through which central government assured itself of the support of regional oligarchies in economically decadent regions, in exchange for the transfer of resources to those regions. We shall return to the point later.

were not adopted, the financing of the treasury deficit through the issue on a massive scale of public debt bonds was also ruled out, because the legal limits on the rate of interest that could be paid by the government, far below the rate of inflation, made them unattractive to a voluntary savers. This remained so until monetary correction was introduced as a protection against inflation, in 1964 again. In the circumstances the treasury deficit continued to be financed through loans from the Banco de Brasil, with counter-productive effects as far as the implementation of the stabilization policies were concerned.

1.3 The stabilization policies of 1961 and 1962: rationales and results.

Before going on to describe briefly the contrast between the intentions and the results of the economic policies of 1961 and 1962, we should draw out two of the implications of the analysis thus far. The first is that in view of the feedback effects of inflation on government current expenditure, and on the costs of deficitary enterprises, it became increasingly evident that the stage characterised by Hirschman as 'productive inflation' was coming to a close. The continuance of the performance of an entrepreneurial function by the state was coming to depend on the implementation of reforms described elsewhere in this thesis as "entrepreneurial", in contrast to those of a redistributive nature. For this reason too, it is possible to argue that the loss by inflation of its function as implicit mechanism for the redistribution of resources in favour of the state provided an economic rationale for the successive stabilization policies carried out in the early 1960s. A second implication, again regarding the intentions of policy makers, is that recourse to the holding down of current expenditure becomes intelligible as an emergency treatment in the face of a) the legal and political constraints mentioned above, which restricted the range of non-inflationary alternatives for the financing on a regular basis of central

government current expenditure and investment, and b) the commitment to sustain a reasonable level of investment.¹ For the investment objective was never abandoned, even in the Quadros period, which was marked by the mobilization of a team of técnicos known for their orthodoxy, and led by Treasury Minister Clemente Mariani.

* * * * *

In what follows we shall seek to establish the extent to which the policy choices adopted in 1961 and 1962 were frustrated, in part because they were based upon a series of miscalculations, and in part because the political crisis arising out of the resignation of Quadros was reflected in the postponement of stabilisation action until the following year. The undesired effect of this was that cuts in investment became inevitable, and inflationary governmental behaviour was resumed.

The exchange reform introduced by Mariani in March 1961 made the following changes: 1) elimination of the system of multiple rates of exchange for imports and establishment of a unified foreign exchange market for importers and exporters (excluding coffee and cacao), 2) setting of the parity rate of the cruzeiro to the dollar, as reported to the IMF, at Cr\$ 215,00 representing a significant devaluation from the rate of Cr\$ 182,00 at which it had been fixed in the Second Quarter of 1960. 3) privileged treatment for the importing of wheat, oil, paper, fertilizers, insecticides, and capital goods not produced internally was maintained, but the corresponding rate of exchange was adjusted from Cr. 100 to Cr. 200, and 4) the introduction

1. This argument, developed by Sochaczewski, permits an understanding of the new course of economic policy not simply as the result of an incorrect diagnosis, and/or pressure from international creditors, but more particularly as an ad hoc response by authorities anxious to avoid an abrupt recession.

of a prior deposit scheme equivalent to 90 per cent of the value of other imported products to be paid by the importers through the purchase of Treasury Bills maturing in 1950 days and bearing interest at 6 per cent per year; this was equivalent, given the current rate of inflation, to an increase of 10 per cent in the cost of imports.¹

The immediate effects of the new foreign exchange regime on treasury resources and on the balance of payments were positive. The elimination of the auction system, which had generated financial resources for the government in the past, was counter-balanced by the fiscal measures linked to the exchange reforms. The compulsory sale of import bills produced an additional CRS _67m in 1961, and the increase of 100 per cent in the price of foreign exchange for subsidised imports meant that taxes on imports generated Cr. 37.7m in 1961, in comparison with Cr.22m in 1960; an increase of 64 per cent compared with an increase of only 34 per cent in internal taxes.

As regards the external sector, the willingness of foreign creditors to accept the measures taken, especially the IMF, Eximbank, and the US bankers (helped by the greater flexibility on these matters shown by the Kennedy administration) was reflected in the success of foreign missions sent to the USA and Europe respectively, the first led by banker and ex-Ambassador to the USA Moreira Salles, and the second by Campos. The opening of new credits equivalent to US\$ 850m was matched by a rolling over of the debt maturity itself worth US\$ 850m. In addition to the improvement in the debt profile made possible by the debt renegotiation, thanks particularly to the activity in the USA of Moreira Salles, with short term obligations amounting only to US\$ 590m, the exchange reform made possible a temporary banishment of the spectre of a crisis of liquidity in the balance of payments: instead of the expected deficit of US\$ 410m there was a final surplus of

1. See Sochaczewski, pp.187-191, which is the source of the data which follow here.

US\$ 115m, thanks to the increased value of exports and a substantial reduction in imports and in service liabilities.¹

The achievements of the two missions appear that much greater if we consider the "state of reigning confusion" over the exact level of the foreign debt to which Moreira Salles recently referred:

"So I suggested (to Quadros) that ... Campos should be entrusted with the negotiations with the European governments... We worked practically every night.. The confusion was so great that Brazil did not know what its debt was. It was a functionary of the US Treasury, Herbert May, who helped us to work out the debt, but we spent months and months negotiating without knowing what the total debt was". (2)

* * * * *

The significance of the exchange reform is not exhausted with the enumeration of its economic effects, whether the results in the short term or the long term rationale which underlay it. It is true, as Sochaczewski points out, that in a longer term perspective the functionality of the former exchange regime as a mechanism for redistributing resources in favour of capital accumulation in industry had become exhausted for two reasons: firstly because the pro-investment bias implicit in the system lost force with the weakening of the incentives to invest of the actors who exercised the entrepreneurial function - the private industrial sector and the public enterprises - once the cycle of investment analysed above was completed. This explains the comparative indifference with which the exchange reform was received in business circles. Secondly, the loss of control by the state

-
1. See Malan, 1981, pp.92-3. The results of the two foreign missions are discussed in more detail in Sochaczewski, pp.192-3.
 2. Testimony of Walter Moreira Salles, October 1981. A summary can be found in Isto É, 2 December 1981. I am grateful to Paulo Sergio Pinheiro for giving me access to the complete text of the interview.

over investment policy with the ending of the system of rigid import controls no longer meant, as it had in the mid-fifties, "a danger of over-expansion of imports of durables" to the detriment of intermediate and capital goods: as we have seen, the relevant sectors, installed under the Plano de Metas and protected by import tariffs and the prior deposit schemes were now able to meet internal demand.¹

Nevertheless, the exchange rate adjustments, combined with the increased tax burden on imports, particularly those receiving subsidies, were reflected in renewed cost pressures, which, once passed on to consumers, had immediate effects upon social sectors on fixed incomes. There are reasons to believe, however, that the political cost of the exchange reform (usually associated with SUMOC Instruction 204) was not restricted to the negative impact of that cost-push inflation, although it probably contributed to the rapid decline of Quadros' popularity. Two additional factors merit consideration. Firstly, the timing and manner of presentation of the reform, announced ex abrupto by Quadros in a television programme on 4 March 1961, suggest that it was introduced without prior soundings among the leading sectors of the political elite², a point which will be explored in the next chapter in connection with the techniques of the governmental action adopted by Quadros. Secondly, the ending of the multiple exchange rate auction system meant the elimination of the major source of discord between the IMF and the Brazilian government in 1959. It should be recalled that the majority congressional bloc composed of the PTB and the PSD had been mobilized in Congress as part of a movement involving union leaders and broad sectors of elite

1. Sochaczewski, pp.190-192.

2. The complete text of the defense of the measures presented by Janio Quadros can be found in O Estado de São Paulo, 2 April 1961, and reproduced in Carone, op. cit., pp.161-2.

opinion to justify the break with the IMF, on the basis of rhetoric of a nationalist-developmental nature.

Among the various negative reactions to the measures introduced by Quadros, two appeared symptomatic. One of them was that of Kubitschek's former Treasury Minister, Alkimir at the time PSD deputy for Minas: free of any taint of radicalism, he had played a leading role alongside Lafer in 1959 in forging an alliance in Congress with radical nationalist sectors to support Kubitschek's decision. On being informed of the measures announced by the new President, he declared: "This government will not last for long".¹ Still more important, a little later a military manifesto issued on 6 June 1961 attacked Quadros' policy:

"We are the contemporaries of another battle, after the re-establishment of constitutional rights (in 1946): the struggle for development, which is synonymous with self-determination...

The fact is that, against the wishes of the producing classes and the workers there has raised itself a minority disposing of effective instruments of propaganda and social pressure, seeking to reduce the rate of development..

In the first four months of the government, Janio Quadros is putting the following plan into operation: he keeps faith with the developmentalist theses in his foreign policy, by defending the principle of the self-determination of nations, while on the internal plane he summons individuals from groups opposed to these views. .. The President.. hopes to be able to continue to promote an international policy against the interests of the minority he is promoting internally with such economic measures as Instruction 204 ... inadequate and reactionary measures of a falsely moralistic nature, against the interests of the national economy. It is well known that the present government is in a minority in the Chamber of Deputies and in the federal Senate, and will be more so when the next elections take place, if it continues to govern on such an unpopular basis (emphasis mine). (2)

To judge from its timing and manner of presentation then, the exchange reform of 1961, however justifiable from the point of view of its economic

1. Carlos Castello Branco, Introdução a Revolução de 1964. Artenova, Rio de Janeiro, 1975, Vol.I, p.95.

2. O Estado de São Paulo, 6 June 1961; cited in Carone, op. cit., pp. 176-8.

rationality, was a gross political miscalculation. By abruptly reversing the expectation of political sectors which identified the continuation of development with the existing exchange system and the rejection of the recommendations of the IMF, the executive revealed its willingness to ignore the power represented in politics by the slogans and commitments of yesterday, a power which acted with particular force upon the behaviour of professional politicians, who tended to acquire a consciousness of the new needs of the economy rather later than the técnicos.¹ As we shall see in the next chapter, however, opposition to Quadros at the time, from various quarters, was motivated both by the techniques of governmental action and the scope of his other reformist initiatives in the non-economic front.

* * * * *

Finally, the inviability of the emergency treatment of budget squeeze and credit and monetary restraint applied in 1961 can be seen in a further 'miscalculation' related to the mode of operation of the financial system. We should bear in mind that 1961 began with a forecasted deficit of Cr\$ 55m, and that the emergency plan subsequently proposed a reduction in current expenditure of Cr\$ 36m. In the meantime, however, the traditional form of financing treasury deficits posed a definite puzzle for the policy makers, and one which was to present itself again 1962 and more markedly in 1963. To the extent that the Banco do Brasil combined the functions of a central bank and a commercial bank, the current account deposits through which the deficit was financed represented an additional source of high-powered money over and above the issue of paper money. This mechanism, which led to the

1. Moreira Salles' testimony gives some clues on this point: it confirms the rupture between Clemente Mariani and Quadros in June 1961, and suggests that Quadros was already contemplating resignation at this time.

primary (not secondary) expansion of money, remained unknown to policy makers.¹ Sochaczewski expresses real doubts whether the técnicos at the time were aware of this mechanism. For this reason the policies of restriction of budget expenditure, in combination with the reduction in real terms of lending to the private sector by the Banco do Brasil, led automatically, via a severe financial squeeze upon the commercial banks, to a 'shock treatment' as regards the liquidity of the system and of the private sector. This outcome illustrates the impact of the lack of appropriate institutions - in this case a Central Bank - to guarantee control of the monetary base by the authorities, and explains the recurring see-saw of monetary and credit policy in the period: in the face of the reaction of the private entrepreneurial sector, threatened with a liquidity crisis, the tight money and credit policy was partially relaxed in May and June 1961 through the reduction of compulsory deposit rates required of the commercial banks and an improvement in rediscounting terms.²

Given that in addition actual expenditure overshoot the target as a result of extra current expenditure and the need to finance loss-making public enterprises, it is not surprising that the 1961 stabilisation effort had already failed two months before Quadros resigned. The reasons for his resignation will be considered in the next chapter. Thus the political crisis of August aggravated the trend toward the resumption of inflationary governmental behaviour; from the second semester of 1961 onward this was due to the fact that the struggle for control of the state became the central issue, until the new institutional arrangement of parliamentarism struck a new but shaky balance of political power. For our purposes here it should

1. Sochaczewski, pp.196-197.

2. Ibid., pp.201-2.

be noted that the final result was a deficit of Cr\$ 137m, of which Cr\$ 128.9m was financed by the Banco do Brasil. This led, through the mechanism described above, to an immediate expansion of the monetary base, combined with a reduction in investment expenditure on the part of the government, in the form of the postponement of payments to contractors, and arrears, and the transfer of debts owed to suppliers to the next fiscal year.¹

The policies applied by successive cabinets in 1962 led by Tancredo Neves, (PSD) , Brochado da Rocha (PTB), followed the same pattern, with similar results. We need only refer therefore to the additional factors which account for the final and more critical results in the budget deficit and the balance of payments.

The first of these was the gross underestimate of the deficit in the budget fully voted by Congress, estimated at Cr\$ 134m (expenditures of Cr\$ 574m against revenues of Cr\$ 439m) due to the following omissions: no provision was made for inflation, or for commitments inherited from the previous financial year, nor were such major foreseeable expenditures as salary increases to public functionaries and advances to public enterprises taken into account.² The commission of technically avoidable errors , attributable to Congress, was nothing new, for it recalled the similar behaviour of the legislature over the stabilisation programme of 1959, although with the difference in this latter case that the projected major increases in revenues, needed to finance new expenditure, depended upon new taxes still to be voted, which in fact never materialised. As a result, the actual deficit for 1961-2 amounted to Cr\$ 500m.

1. SUMOC Report, 1961.

2. Sochaczewski, pp.205-9.

In the face of the threat of greatly accelerated inflation, the government turned to the same policies as in the previous year: the restriction of current expenditure, and tighter money and credit policies through increases in compulsory deposits for commercial banks from 14 to 22 per cent for current deposits, and from 7 to 14 per cent for time deposits. This again threatened a financial squeeze on private sector companies, and provoked considerable opposition from this sector.

The results, in 1962, were as follows: a deficit of Cr\$280m, representing more than 40 per cent of total revenues, and nearly 3 per cent of GDP, in addition to Cr\$ 134m transferred forward to fiscal year 1963. The deficit was financed, as usual, through loans from the Banco do Brasil, which accounted for 92 per cent of the total. The volume of money increased by 63 per cent, and inflation was 51.7 per cent.¹

At the same time the spectre of a liquidity crisis in the balance of payments returned on a scale which recalled the end of the Vargas period. With the failure of stabilisation policies and the 1962 changes in the treatment of foreign capital the IMF and the members of the Club of the Hague adopted less cautious attitudes, and as a result the question of how the deficit of US\$ 340m in 1962 (the highest since 1952) was to be financed became one of the major problems facing policy makers. The deficit was attributable to a decline of US\$ 200m in the value of exports, largely due to falling coffee prices, and to the poor performance of the capital account, which produced US\$ 290m net, as against US\$ 676m net in 1961. The IMF withheld more than half of the US\$ 160m stand-by credit agreed in 1961, and the European bankers adopted a similar attitude, allowing a draft of only US\$ 22m, of a total agreed in 1961 equivalent to US\$ 110m.² The

1. Ibid., pp.209-210.

2. Ibid. , p.210.

deficit was covered by swap operations, commercial arrears, and a reduction of reserves. To summarise, on the eve of the Three Year Plan the withdrawal of goodwill on the part of public and private financial institutions, combined with a retraction in direct investments by foreign capital, was clear. The reversal of these attitudes would depend fundamentally upon the success of measures of stabilisation and political development on the internal front; these were only partially within the control of policy makers, for reasons which we shall discuss in the next chapter.

However, two lessons may be drawn from the 1961-62 experience of economic policy making. The first was that the exclusive resort to emergency therapies would not be effective to counteract disequilibria and recession. Institutional reforms of an entrepreneurial sort were a sine qua non for rational economic management. The second, related to the first is that in the face of critical economic conjuncture there emerged consensus among the técnicos of differing political persuasions concerning not only the need for those reforms, but also the diagnosis of the immediate sources of disequilibria and the emergency therapies to tackle them, as we shall see in the next session. This is because, despite the disagreements among them on substantial political and ideological matters, they shared a common language and experience, which in turn separated them more clearly than ever from other actors, particularly the politicians in Congress. This was not the case, though, of those politicians located in the decision making system who were able either to share with the técnicos the same language and experience or able to take advice from them, as it seems had been the case of the Premier Tancredo Neves in 1962. It is against this background that the Three Year Plan (TYP) was conceived as a major tool to deal with political and economic uncertainty. A question to which we now turn.

2. The Three Year Plan of Economic and Social Development. (1)

In this section we set out to analyse two sets of interrelated questions. First, the TYP's underlying approach to stabilization -cum-growth which illustrates how economic necessity was interpreted by the técnicos estruturalistas. Second, the political rationale for the relevant targets and blue-print solutions.

This is crucial for understanding why the plan cannot be approached simply in terms of technical and economic rationality. We will try to advance some hypotheses concerning the political calculations on the part of the relevant técnicos as they affected the choice of policies, their expected timing and their form of presentation. This, in turn, will provide the background for an additional problem to be discussed in the last chapter of this work; the contrast between the técnicos' own expectations as to the responsiveness of the other relevant actors, the economic agents and the professional politicians, on one hand and on the other the latter's actual reactions.

It should be stressed that we do not share the view that the TYP was a "carbon-copy" of the 1958 and foreshadowed the 1965 stabilization programs, sustained by Wells.² It is true that in both cases the budget deficit and the external sector were identified as the "main sources of disequilibria": a diagnosis which might explain why some short-run counterinflationary measures were common to the TYP, the PEM and later on to the PAEG (Governmental Plan of Economic Action -1965).

We shall argue that at a closer inspection, those similarities are less significant than might appear at first sight. All one can legitimately argue is that, as they were confronted with vital issues and with the

1. ¹Presidência da República, Plano Trienal de Desenvolvimento Econômico e Social, Brasília, 1962. The plan was drafted in September-November 1962 and was envisaged by its main proponents Furtado and Dantas (PTB) also as a political weapon in the campaign for a plebiscite to be held in January, 1963. The issue at stake was the restitution of full presidential power to Goulart, the PTB leader.

2. Wells, J., op. cit. pp. 221-230

increasing leverage of the IMF in the process of policy formation, the Brazilian structuralists adopted a pragmatic attitude. Namely, a more flexible approach to the use of some orthodox fiscal and monetary weapons, as much as a more vigorous attitude vis-a-vis trade policies which might boost exports. Thus, what we intend to show is that despite the similarities with the plans of 1958 and 1965, both the diagnosis of the "Brazilian crisis" and the overall economic strategy seem to qualify the TYP as a genuine offspring of ECLA's tradition. To our view what makes the TYP an interesting piece of planning work is the attempt to combine the selective use of short-run orthodox therapies with policies aiming both at a sustained rate of growth and at broadening the scope of Brazilian democracy.

In any case, there is no chance of understanding the rationale for the TYP simply in terms of technical rationality, for the structuralists were explicitly concerned with the social aims and scope of the reform function to be performed by the State. Given this framework and political assumptions we need to examine how the political priorities of holding the social compact together and broadening the scope of Brazilian democracy were reconciled with the anti-inflationary strategy.

2.1 The main targets and the case for gradualism.

The complexities of the tasks which the técnicos set for themselves stems from the endeavour to achieve simultaneously conflicting economic goals. On the one hand, the very short-run ones such as to bring immediate relief to the short-term strains in the BOP and of checking soaring price inflation from its 52 per cent peak to a projected 25 per cent rate in 1963 ;and to a 10 per cent rate from 1964 on. On the other hand, the resumption of a 7 per cent rate of growth after 3.5% in 1962: this was a target which according to the planners depended on the successful implementation of an investment policy geared to securing the conditions for

a sustained rate of investment. The image used by the chief proponent of the TYP, Furtado, to describe the policy-makers' approach to stabilization is revealing: "We were forced to change the train's wheels while it was still running ... This was a rather difficult task but otherwise a recession would ensue".¹

Moreover, to the extent that one major principle governing the prescribed policies - to reduce the social costs of development - was converted into an additional goal, the range of technically feasible alternatives to tackle inflation and to generate the export surplus needed was automatically narrowed. For this precluded, inter alia, the resort to a policy of wage-restraint: urban wages, so we learn, should at least fare in tandem with the rate of inflation plus the average rate of productivity. The aim was to maintain the share of wages in national income.²

The scope of a "planned policy for development" for the forthcoming three-year period in Brazil is assessed as a set of four interrelated objectives.³

- a) maintenance of a fast rate of overall growth ;
- b) progressive reduction of inflationary pressures;

1. Furtado, C. Interview to the author, 18-19 April, 1977.

2. Unless otherwise stated, the quotations are from the Sintese do Plano Trienal de Desenvolvimento Economico e Social, Brasilia, 1962. The "Synthesis" is the most condensed form of the original plan, which is twice as long. We will make reference to the original whenever there are relevant differences to be mentioned.

3. Synthesis, p.17. In a more detailed way these objectives are stated on the first page as a set of eight targets. We have chosen the quotation mentioned in the text for two reasons: 1) it contains in a more concise way the basic elements to be focused on in our discussion; and 2) because the last two of the targets listed on the first page are in fact conditions for achieving the preceding ones: namely, the immediate renegotiation of the foreign debt and the unity of command within the specific Government sphere of action. Consequently, we believe, targets 7 and 8 belong to the item "Policy Decisions previous to planning activity".

- c) reduction of the present social cost of development and better distribution of its benefits;
- d) reduction of regional inequalities in living standards.

The rationale behind the gradualistic approach to stabilization, stated as the "central concern of planning activity", was both economic and social. Despite the regressive effects which past inflation had on income distribution, it was thought that still more harm would be done by the abrupt deflation which might follow the mere use of the "monetary weapon". This ought to be avoided: it might jeopardize the "most important of all objectives", the maintenance of high rates of growth (p.17, 18).

On the other hand, "the risk of hyper-inflation and ensuing paralysis of all economic activity" mainly associated with the volume and the pattern of the Government's expenditures - would call for immediate reduction in the programmed current expenditures. This would be reconciled, however, with a well-designed investment policy. The search for new sources of non-inflationary financing for the Government's planned expenditures stands out, therefore, as a major economic issue.

A crucial contention is also the more explicit acknowledgement (than had hitherto been the case among the Brazilian structuralists) of the ambiguous role played by "structural inflation" which had been reinforced by economic policy-making in the 1950's. That is to say, it favoured the process of capital accumulation in the industrial sector, while at the same time reinforcing a socially perverse pattern of income distribution (both functional and regional). Thus, the disequilibrium-scheme of the past - inflation-cum-overvaluation - would have intensified regional disparities. This is because the poorest regions were mainly exporters. Both the past exchange-rate policies and the selective control of imports, with its strong pro-industrial bias, would have favoured the transfer of real resources

towards the more industrialized areas of the south. In this sense, one might conclude that the endorsement by the authors' of the TYP of a policy geared at unifying the exchange-rate market (a target to be attained gradually) was not just the major resort to bring relief to a strained BOP: it was also instrumental for boosting the income of the poorest regions.

"While it is imperative to continue with the process of import substitution, it is also necessary to subject this process to careful planning in order to prevent this process from operating against regions with net exports."(p.17)

Notwithstanding this, as had already been suggested, a clear-cut choice (based on hypothetical conjecture) was made at the end of the programatic part of the Plan. That choice favoured "development with all its deficiencies", should economic recession be the price to be paid for stabilization.

The option for a gradual approach to stabilization is thus inseparable from the more accommodating attitude towards inflation typical of structuralists on grounds that recession, however temporary, would be irreconcilable with the search for social reform. Moreover, such tolerance towards inflation is grounded on the theoretical assumption which underlies the diagnosis: that the ultimate sources of inflationary pressures - represented by inter and intra-sectoral bottlenecks - could only be tackled through substitutive investments in basic inputs and capital goods industries as well as through the creation of an infra-structural basis for further capital accumulation at decreasing costs. In short, to the extent that "cost inflation" as determined by the inter-sectoral imbalances, is assumed to be a determinant structural factor of internal disequilibria, a well-designed investment policy would perform a twofold task: that of securing the rate of investment required for the maintenance of at least the historical rate of growth on the one hand; while on the other, key investments, under conditions of foreign-exchange constraint, are assumed to be cost-reducing and

therefore instrumental to tackle the ultimate causes of inflation. (p.36)

The most conspicuous characteristic of this part of the TYP is the rather strong assumption of a quick economic recovery. The 7 per cent rate of GDP growth for the forthcoming three-year period was meant to sustain the records of the Kubitschek's administration. As we have seen in the previous section, this was a target difficult to obtain in the short-run, since even in the case entrepreneurial reforms were politically viable, their impact would be effective only in the medium term.

2.2 Diagnosis of the main sources of economic disequilibria.

The analysis of disequilibria was based on three analytical assumptions. Firstly structural inflationary pressures were considered a necessary companion of intensive industrialization, increasing persistently and parallel to the scope of ISI. The internalization of heavy industries, the domestic production of capital goods and basic inputs, as well as the infra-structural investments, would require a corresponding increase in the amount of savings per unit of investment. This additional financial effort, in conditions of "stagnant import capacity", would be due to: the longer period of maturation of investments; the more capital-intensive technology; and finally, to the fact that the substitution of imported capital goods required the replacement of the external savings (supplier's credit) which had financed its supply, by domestic savings. Secondly, to the extent that "the process of capital formation is more and more based on the domestic production of capital goods, the development of the Brazilian economy would depend increasingly on its internal dynamism", and on the "set of decisions related to the demands of the internal market". In short, the crucial variable was the maintenance of a sustained level of investment, in order to prevent the working of the negative multiplier effect. This, in turn, would require a savings effort compatible with a high level of productive activity. Planning the last stages of import substituting industrialization, therefore, was thought

a sine qua non to provide a more rational allocation of scarce domestic savings to key investments; or to increase the average efficiency of investments, which would more than counteract the effects of the inflationary pressures.¹ Likewise, a similar counteractive role is attributed to a systematic effort to expand import capacity, via a new trade policy, geared to the expansion and diversification of exports. The third assumption, derived from an analysis of the social structure and of the increasing social inequalities accompanying unplanned development: the undesired pattern of income distribution provided the main justification for an agrarian reform (and for a progressive tax reform). It should be observed that nowhere in the TYP (as one might have expected) was the agrarian reform analytically linked to an observed structural bottleneck in agriculture. Consequently it did not appear to be the corrective institutional adjustment for one of the major sources of inflationary pressures (as was the case for the Chilean structuralists). At most, the agricultural sector would emerge as a propagating factor of inflationary pressures. The rationales for agrarian reform were greater social welfare - and the expansion of the domestic market for the industrial sector.

a) The Primary Sources of Disequilibria: the foreign sector and the Treasury's deficit.

i) The foreign sector

The approach to the immediate source of external disequilibrium was consistent with ECLA's tradition. That is to say, after the Korean boom was over, the trend towards a stagnant import capacity stood in contrast to an increasing demand for imports, as industrialization proceeded. Simultaneously with a high rate of investments since 1957, the deterioration in the terms

1. See p.33.

of trade led to increasing reliance on foreign debt, a device which had temporarily stretched the country's import capacity. The estrangulamento externo was therefore envisaged as the immediate source of external disequilibrium.

The most relevant implication of the analysis of the import capacity constraint, however, was the paradoxical situation whereby the observed decline in the terms of trade had been reinforced by the exchange-rate and trade policies of the early fifties, since overvaluation had acted as an additional deterrent to exporters. As we have seen a partial effort was made to attenuate the anti-export bias under Quadros' administration. According to the new planners the exchange-rate reform of 1961, however justified, had proved self-defeating from the point-of-view of overcoming internal disequilibrium. This is because while alleviating the import capacity constraint it also (gradually) deprived the State of its traditional sources of revenues, derived from the auction system. In short, the new exchange regime had an undesired result: that of worsening the back-breaking financial burden of industrialization for the State sector.

As may be seen in table I, the BOP projections for the forthcoming three-year period indicated that the value of exports, despite the adverse trend, was thought to be sufficient to finance the imports needed for achieving the projected rate of growth. The main burden in current transactions, was "financial services" (profits, dividends, interests, insurance) which, added to the item "capital debt", amounted to a deficit of \$1,830 million. The total volume of \$1,520 million necessary for the forthcoming three period would have to be directed exclusively towards amortization and interest payments which amounted to \$1,662 million.

One implication to be drawn from the BOP projections is that given the growth target constraint a very slow gradualism characterized the approach to external disequilibrium. To judge by the estimated inflow of foreign capital

Table 1SYNTHESIS OF THE PROJECTIONS OF THE BALANCE OF PAYMENTS

1963/65

(US\$ in millions)

DESCRIPTION	1963	1964	1965	THREE-YEAR TOTAL
1. Commodities and Services	- 203	- 183	- 159	-545
1.1 Exports F.O.B.	1,397	1,457	1,511	4,365
1.2 Imports F.O.B.	1,200	1,220	1,250	3,670
Commercial Balance	197	237	261	695
1.3 Services	- 400	- 420	- 420	- 1,240
Receipts	105	110	115	330
Expenditure	505	530	535	1,570
a. Freights	95	95	95	285
b. Investment Income	160	175	165	500
c. Other	250	260	275	785
2. Grants				
3. Current Transactions (1+2)	-203	-183	-159	-545
4. Capital Debt	-465	-465	-355	- 1,285
5. Deficit (3 + 4)	-688	-648	-514	- 1,830
6. Entry of Autonomous Capital	405	420	445	1,270
6.1 Investments	100	100	110	310
6.2 Loans and Financing	305	320	335	960
7. Deficit not covered by				
Private Capital (5 + 6)	-263	-228	- 69	- 560
8. Counter-balancing Capital	263	228	69	560
8.1 Refinancing	63	33	20	116
8.2 Overdrawn	200	195	49	444

Source: Three-Year Plan, p.67.

this seemed to rely on two strong assumptions:

- a) the immediate renegotiation of the debt, without which import restraint would have to be introduced, jeopardizing the investment policy and
- b) despite the intention of "not aggravating the debt position", an additional inflow of autonomous capital under the form of direct investments is relied upon. (Most of the sectoral projections confirmed the above-mentioned assumption). As can be seen in table I for the forthcoming three year period, the TYP forescasted an inflow of 1,830 million dollars, thus defined: 310 million in direct investments and 1,520 in official loans.

The economic alternatives, such as they were perceived by policy-makers may be represented as follows: either a favourable response on the part of foreign creditors would follow, so that the growth target would not be impaired; or "a significant reduction in the volume of imports" as well as a "still more aggressive export policy" would become inevitable. In this case, the only way out - stated only conjecturally - would be the acceleration of import substituting industrialization at a lower rate of growth. This more radical modality of autarchism is therefore contemplated but only in extremis, should negotiations with the IMF fail. For reasons to be explored in the next two chapters the above mentioned assumptions proved too strong.

ii) The budget deficit

The analysis of the National Treasury's Deficit as a primary source of disequilibrium starts from a critical assessment of the effects of past policy decisions. According to the TYP, the disruption of the fiscal machinery based on the multiple exchange-rate auction system in 1961 worsened the financial burden of the State, and reinforced the inflationary pressures at work since 1959 which resulted from the purchase of coffee surpluses combined with an increase in investment expenditures, and the "subsidies" channelled to finance the deficits of public enterprises in the maritime

and rail transport sector. Moreover, under Kubitscheck, huge exchange-subsidies had been channelled to the transport sector in order to promote the expansion of highway transport.

The major immediate causes of internal disequilibrium were twofold. Firstly, the persistent increase in public investments, which accelerated between 1955 and 1960, financed out of the monetary base. While the proportion of current expenditures and that of fiscal revenues had been faring alike (average 20.2% and 19.4% respectively), the share of investment expenditures in total expenditures had increased from 3.3% to 5.7% under Kubitschek.

Secondly, the resulting burden on the national Treasury was presented as the upshot of the exchange-rate reform of 1961 and of past trade policies which acted as a deterrent to the expansion of tradeables.

b) Social Inequalities, the pattern of income distribution and the function of the agricultural sector.

An important aspect of the diagnosis was the analysis of the social structure of the country. We shall not dwell on this item as it is clearly one of the most hastily drafted parts of the TYP. However, it reveals the extent to which "social welfare" provided the rationale for the implementation of the Tax and Agrarian Reforms. Suffice it to mention the following elements. First, the terms of trade between the agricultural and urban sectors, favourable to the former (excluding coffee prices), acted as an inducement to the generation of the surplus needed by the more than proportionate increase in the urban population.¹ Notwithstanding the fact that the real

1. "Between 1950 and 1960 the price index for the agricultural sector, excluding coffee, rose from 100 to 734, while the price index corresponding to the product rose from 100 to 540. During the same period, real agricultural incomes grew by 86% (p.26).

annual income per capita in agriculture had increased at a faster rate than the real income of the population as a whole, it was probably absorbed by landowners, wholesalers, etc.¹

Secondly, according to the TYP since 1956, real wages fared less well than average productivity (3.6% and 3.9% respectively).

Thirdly, the real income of specialized workers, liberal professionals and high-income groups in general increased "substantially as a result of the structural changes associated with the process of development." (The indicator here is the number of motorcars and the increase in the production and sale of durables, at a "still quicker pace than per capita income").

"Even if medium and high-income groups were not increasing their participation in the Product, the simple fact that they can maintain it in the current phase is giving rise to growing differences in living standards. Whereas the mass of the population still finds itself in the phase in which basic necessities of life absorb almost all of the increases in real wages, those groups (of medium and high income) are applying their incremental increase in buying power to the purchase of durable consumer goods which are indicators of social status. In this way, since for the population as a whole the consumption of luxury goods is growing with an intensity greater than that for essential goods, it is up to a well-directed fiscal policy to ensure that those disparities do not become extreme."

Finally, it was thought that the actual system of land tenure and of commercialization was responsible for the persistent transfer of income from the urban to the rural sector, rather than insufficient productivity.

1. "In per capita terms, real incomes in the agricultural sector grew 5% per year, a much higher rate than for the population as a whole. There is nothing to show, however, that rural labourers' living standards developed proportionately. The most likely conclusion, then, is that most of this rise in income was absorbed by landowners and middle and high-income entrepreneurs. The average increase in rural workers' real wages is situated between the minimum of 1.6% per year, corresponding to the increase in the productivity of labour, and 2.5% per year, corresponding to the increase in private consumption during the period."

The agricultural sector, throughout the TYP, therefore, is not presented as a primary source of inflationary pressure. On the contrary, the growth rate of the agricultural product, especially during the intensive stage of industrialization (at 4.9% p.a.), was thought satisfactory in that it was able to meet urban demand, both for consumption goods and for inputs. Yet to the extent that the terms of trade between industry and agriculture were favourable to the latter, the increase in the industrial costs and in the cost of living were presented as evidences that the agricultural sector was an important mechanism for the propagation of inflationary pressures. However the land tenure system, specially the rent paid by the direct producers to landowners was said to have promoted an extreme concentration of the surplus, and acted as a deterrent for the expansion of the internal market.

"Thus stripped of a substantial portion of his surplus product, which would put him in contact with the monetary market economy, the landless peasant could not contribute significantly to the expansion of the market for industrial products. The highly regressive distribution of agricultural income, occasioned by the forms of exploitation, did not allow the rural masses to be affected by productivity gains, nor did the transfer of income from agriculture, through the price mechanism, have this effect, as both were absorbed for the most part by the payment of land and by the wholesalers."

Thus, according to the TYP, the land tenure system was an obstacle to "development" (but not an effective economic "bottleneck" as was the case for the Chilean structuralists). It was responsible: a) for the fact that the increases in income were not converted into a factor for the improvement of the technical standards in agriculture, and this rendered industrialization more onerous; and b) for precluding a greater expansion of the market for manufactured goods, via the incorporation of the rural masses into the market economy.¹

1. See pp.194, 195.

2.3 The main prescriptions, guidelines and policies

The key elements in the stabilization-cum-growth strategy were:

- 1) the management of the Deficit and associated monetary and credit policies,
- 2) the exchange-rate policy, and planned investments.

From the very start, although both the wage policy and the renegotiation of the debt are also held to be crucial (pp.55 and 56), these are defined as "autonomous" - i.e. out of control of the Planning authorities. The general strategy "would require a strict coherence between the fiscal, monetary and exchange-rate policies ... not a simple task ... given the inexistence of a Central Bank".

a) The budget deficit

The general policy guidelines were approximately the same as in 1961-1962: a) increase in fiscal revenues; b) reduction in programmed public expenditures; c) borrowing from the capital market and d) "mobilization of monetary resources".

Two preliminary comments are relevant here. First, the need to channel an increased proportion of savings to investment, imposed a constraint on the draining of resources from the capital market on the part of the Government. For this might introduce an undesired competition between the Government and the private sector for voluntary savings and thereby jeopardize the level of private investments. Moreover, current consumption should not be impaired. The progressive Tax Reform is envisaged as instrumental to circumvent both constraints. Second, although the management of the deficit accounts for a cutdown in current expenditures, the approach backing it would justify the use of the term "reflation" rather than that of stabilization. The arguments presented in the TYP run as follows: given the fact that the budgeted expenditures of the National Treasury had been hitherto aimed at increasing its share in the total - a program systematically defeated by

inflation - it would follow that the more realistic attitude was to accept and maintain its real share (14% of GNP), allowing therefore for an estimated rate of inflation of 25 per cent. Consistently the programme deficit of 300 billion cruzeiros assumed a cutdown of Cr. 260 billion in current expenditures. This, together with the postponement of some budgeted expenditures to a "later stage", would represent an economy amounting to Cr. 475 billion. (p.56.)

It is, however, worth noticing, two possible problems posed by this reduction in current expenditures. First, it represented an additional strain between the Executive and the Legislature (on whose approval it depended), and this was acknowledged in the plan (pp.57-58).

A second area of uncertainty not considered as such in the plan was the estimated ceiling for the civil servants' salary increase which amounted to forty per cent. The non-inflationary financing of the programmed Cr. 300 billion deficit - 40 per cent of revenues - depended on three short-term measures.

In the first place, the maintenance of the prior deposit scheme, introduced in 1961. The expected revenues from this source were Cr. 70 billion. Another fiscal source was the sale (voluntary in the case of imports, compulsory in the case of bank deposits) of negotiable instruments of public debt (Letras do Tesouro Nacional). The revenues estimated in this case amounted to Cr. 100 billion.

An important prescription - the elimination of the traditional price subsidies to wheat and oil which according to the TYP represented a drain on resources of more than Cr. 60 billion in 1962 - was acknowledged as unpopular, but unavoidable. These goods had been imported at an increasing subsidized exchange-rate - Cr. 45,000 to the dollar while the official price of the dollar stood in the second half of 1962 - at Cr. \$318,00. The pro-investment bias is explicit in the following quotation.

"Given the foreseeable increases to the exchange rates for 1963, maintaining subsidies to wheat consumers during the current fiscal year would represent payments of the order of Cr. 70 billion, while maintaining the prices of oil byproducts would mean a reduction of around Cr. 80 billion in oil tax receipts and around Cr. 40 billion in the gross revenue of Petrobrás. It would not be possible to carry out investment programmes either in transport or in Petrobrás without eliminating these subsidies. (p.40).

Finally, another important subsidy which should "be reviewed vigorously" is the one represented by the subsidized prices of public utilities, basically transport and communications. (These are not quantified, however).

Thus the "realistic" pricing of public utilities, which would allow public enterprises to generate their own savings and thus alleviate the burden on the Treasury, was recommended, but as an emergency therapy, since it was acknowledged as socially regressive. The effective therapy to reduce its impact was Tax Reform:

"In other words, the awareness that inflation produces social injustice by leading to a concentration of the benefits of development in the hands of a minority was cancelled out by the knowledge that unless the basically regressive tax system in force were altered, any attempt to eliminate inflation would merely institutionalize the existing framework of income distribution, itself also of profoundly anti-social significance. These regressive effects can only be avoided if other measures are taken simultaneously in order to redistribute the tax load and make it bear down more heavily on high-income groups." (p.40)

In short, the pro-investment bias which had prevailed since the mid-fifties is reasserted in 1963. Indeed, government investment planned for 1963 reached much higher nominal values than they had in 1962. In the Federal sphere, the Federal budget allocated Cr. 265 billion for capital expenditure, as against Cr. 140 billion in 1962, in addition to expenditure for the same purpose included in the item Grants, to the value of about Cr. 111 million.

The monetary and credit policies followed the same path of a desired "gradualism", which should not, in principle, harm private investments. With

public sector expenditure determined, the total programmed expansion in the "means of payment" (relative to the previous year) should correspond to an equivalent amount in the nominal product (7 per cent in real terms, given the expected 25 per cent rate of inflation for 1963). It was meant as a reassurance for the private sector as to its share in the expansion of the monetary base. (p.61)

The credit policy, rigorous as to the use of its resources and consistent with the investment policy, was supposed to increase the leverage of the Government in private investments. These resources were to be channelled to finance the process of capital formation and/or working capital (as opposed to investments in housing, land, etc.), in top priority areas. However bank and financial reforms were thought a more effective remedy for the mobilization of monetary resources, and as the tax and agrarian reforms, deserved a very concise and general reference. It was to include the creation of the Central Bank, the definition of its general functions and the regulation of non-commercial banks (particularly investment banks); as well as the streamlining of the legislation regulating the operations of non-banking financial institutions.

b) The foreign sector

The guidelines for overcoming foreign-exchange constraint were 1) the immediate renegotiation of the debt and 2) the maintenance and adaptation of the reform introduced by Quadros whereby a "realistic" pricing of the exchange rate geared to boost exports would be combined with a strict import control in order to ensure the regular purchase of capital goods and basic inputs. In this way, the traditional pro-investment bias came to be combined with a modification in the exchange-rate policy aimed at gradually restoring a unified exchange market. The policy proposed was one of progressive exchange-rate adjustments in tandem with the evolution of domestic prices.

The most relevant aspect of such policies, for our purposes, is that the structuralists sanctioned the abandonment of the institutional device by means of which the exchange-rate mechanism had acted as the major instrument available to the Government for the inter-sectoral transfer of real resources, as a means for the State to direct and propel the process of industrialization. Instead, measures such as the prior deposit scheme and the option open to importers of converting such deposits into voluntary savings, i.e. in exchange for negotiable instruments of public debt, converted the exchange-rate mechanism into a predominantly fiscal device.

It is important to note also that the medium-term solution to the BOP - a more effective one - was the search for a new form of integration in the international trade. It was thought that this depended primarily on the pace of industrialization. This was consistent with the observed structural changes in the pattern of Brazilian exports. This is because the quantum of manufactured exports was in 1961 12 times greater than in 1953.

If it is true that such prescriptions foreshadowed those proposed by the post-64 policy makers, the domestic production of manufactures, however, remained predominantly geared towards satisfying the needs of the internal market. The most important economic implication of the prescription for a more aggressive export policy - in contrast with the ones implemented after 1964 - was that: if the industrial entrepreneur's profits were not to suffer, real wages should also fare reasonably well. In short, the option for boosting internal popular consumption confirmed the traditional approach to the trade policy in terms of export surpluses. At the same time, the reversal of the anti-export bias, envisaged as "the only means to share the recovery of the country's import capacity" reinforced rather than attenuated the pro-industrialization bias, in the sense that, the plan contemplated the diversification of exports via a greater share of industrialized or semi-industrialized goods in the total. Industrialization should

proceed at a still quicker pace than in the past (given the income policy which precluded wage-restraint). This seems to be a logical conclusion of the policy-makers' endeavour to combine both their commitment to enlarge and to unify the internal market - a deeply ingrained feature of their economic ideology - and the desire to reverse the structural trend of a chronic foreign-exchange constraint.

2.4 The implications of the stabilization-cum-growth strategy and the técnicos political calculations.

We may now turn to the implications of the stabilization-cum-growth strategy. Beyond its positive impact on employment and income, it was instrumental to ensure greater tolerance for income inequality, as investment proceeded and multiplied, thus providing a hedge against social and political instability. However as we have shown in section one, there were no conditions to maintain a sustained level of overall investment (at least at the historical rate) due either to market prospects (private sector), lack of new projects of investment (public enterprises) or increasing difficulties in financing the Central government's investment expenditures.

It remains however a major question how the pro-investment bias, which required an additional saving effort, was reconciled, with short-run stabilization policies which might have undesired effects. Some of them, such as a more restrictive credit and monetary policy, might harm current demand of the private sector, and act as a further disincentive to invest. The same effect might be reinforced by the increasing costs of imported capital goods and basic inputs, and on the demand side, by taxation of those sectors which represented the actual demand for durables. Even on the assumption that wage demands (and therefore labour costs) might be kept within certain bounds, there occurred a modification of the well-known rules of the game, to the extent that short-run price increases

(corrective inflation) associated with progressive devaluations, realistic pricing of public service utilities and elimination of exchange subsidies on wheat and oil, were bound to feed inflationary expectations.

A second difficulty, quite familiar to popularly elected governments, might be represented as follows: the financing of an adequate level of public investments implied both a cutback in current expenditures and a Tax Reform.

In the face of the price increases induced by those short-term measures, wage demands, and those of civil servants over and above those prescribed by policy-makers, might disrupt the planned cut down of current expenditures, and consequently harm the programmed level of public investments. One key conclusion may be drawn both from the analysis of the TYP and from the interviews with its chief proponents: the more orthodox short-run stabilization policies were approached as an emergency therapy and not as the effective remedies. The tax, financial and administrative reforms were believed to be the most substantial remedies for promoting stabilization-cum-growth.¹ However, the extreme caution and brevity which characterize these reform proposals were part and parcel of a political strategy. It was designed to overcome a serious dilemma: lack of congressional support for the reforms. Policy-makers had to obtain approval for measures which Congress had traditionally been reluctant to sanction: progressive Tax Reform and cutback on current expenditure. They were also faced with the equally arduous task of achieving congressional support for an overall, labour-saving administrative reform which, in the minds of Congressmen, would undermine the electoral advantages accruing from the "patronage system"

1. This point is more clearly stated in the original copy of the TYP, and confirmed by Furtado in the interviews to the author.

in public administration. We do not, therefore side with those authors who interpret the chapter of the plan dealing with the above-mentioned reforms as just an ideological "concession" to the demands of the time, nor with those who consider its proposals to have been irrelevant.¹ On the contrary there is sufficient evidence to support our view that such a conflict-minimizing approach to institutional reforms was part of a calculated trade-off. That is to say, it was meant as a compromise solution, by means of which political support of the Congress was to be ensured. The political priority of holding the social compact together, while implementing the macro Keynesian policies proper was part and parcel of the search for an agreed economic strategy. Two examples can be found which provide support for our interpretation, the first of which is located in the opening pages of the Plan.

The cautious defense of planning activity as a "technique of administration and of government to be introduced progressively, at the pace required by the existing political, institutional and administrative framework" is indicative of the difficulties faced by policy-makers. Together with the responsiveness of private investors, domestic and foreign, to the purely economic inducement laid down in the TYP, its future implementation depended on: (p.16).

1. The successful effort of persuasion on the part of the Government to obtain the support of the associations of entrepreneurs for its industrial policy (including the wage policy); 2) a "minimum degree of harmony" between the Executive and the Legislature; 3) "a unity of views" within the Executive and the coordination of decisions among the relevant policy-making agencies; and 4) administrative coordination and expediency in the implementation of

1. Rocha Miranda, "O Plano Trienal, Canto de cisne do nacional-desenvolvimentismo" (M.sc. Thesis, Campinas, 1980). and Wells, op. cit.

the designed policies. For reasons to be explored in chapters VI and VII, requirements 2) and 3) were problematic.

The second example is provided by Furtado's own expectations concerning the adequate "timing" for the implementation of the relevant policies. The técnicos, it seems, had consciously opted for a strategy which was designed - in the first place - to "put the house in order". This was to be achieved through the implementation of a gradualistic and conflict-minimizing set of anti-inflationary policies coupled with those policies geared at a sustained level of investment. These were seen as instrumental for achieving the internal and external consolidation of Goulart's government and obtaining the good-will of foreign investors. In other words they were thought as sine qua non (shared with Dantas) for the future implementation of the "basic reforms" - a "far more delicate task which required in due time the mobilization of a huge amount of political resources on the part of the Executive".¹

What remains to be explained, however, are the assumptions concerning the complementary trade-off for holding the social compact together. Given the "realism" of some of the stabilization policies, they might generate, in the short-run, de-stabilizing political effects which might act as a hindrance to curbing price inflation and in particular to the investment policy. The técnicos' perceptions of the political constraints at work are easy to ascertain for, although some of the more orthodox weapons were openly acknowledged as unpopular, the hypothesis that a wage-price spiral might eventuate in the face of a more realistic pricing of public services and especially after progressive devaluation and the withdrawal of the exchange-rate subsidies for wheat and oil, seems to have been dismissed.

1. Furtado, Interview 17 April 1977.

Similarly, the planners neglected the possibility of increasing pressure on credit, which might have the effect of throwing overboard the tighter money policy - both as a result of and in anticipation of increasing labour costs resulting from labour unrest. One political calculation was that greater political stability would be secured by the final return to "unconstrained" Presidentialism, under a Labour-party government. This would increase the scope for a political management of conflicts arising in the labour front geared to achieving wage-discipline without wage restraint. Another political calculation, probably based on the evidences of a greater autonomy of the labour leaders vis a vis the populist establishment, (as we shall see in the next chapter) assumed that the conditions were ripe for the emergence of a more mature social democratic behaviour of the union leaders - and that such behaviour was compatible with Goulart's leadership. It was Furtado's belief that the positive benefits of populism could be wiped out unless the new labour leaders were firmly based upon autonomous organizations. This assumption concerning working class behaviour is at the root of two calculated trade-offs disclosed in the TYP. These were a) orthodox stabilization policies blended with a novel income policy geared at securing the share of wages in national income, due to an escalator clause linked to the rate of inflation plus average productivity. b) progressive Tax Reform, together with the incorporation of popular demands for agrarian reform (however brief and concise), might be held up as the long-run compromise solution to make up for the short-run penalties inseparable from the more restrictive macro-Keynesian policies.

Thus in the face of a possible congressional opposition, progressive taxation on income and wealth was effectively contemplated by the técnicos, as a medium-term policy goal, which was decisive both to finance the public sector's expenditures, and to ensure the cooperation of the trade-union leadership. The traditional reluctance of Congress to exercise its taxing

power in the manner desired by the técnicos nacionalistas had, been put to test at the very moment the TYP was being drafted. In January 1963, when it was launched, Furtado would explain in a seminar that the denial of the part of Congress in late 1962 to vote a new income-tax law requested by the Executive, had led the policy-makers to resort to a socially undesirable short-run measure: the cut in the more manageable variables represented by the government's subsidies on wheat and oil.

The tricky aspect of such a choice, as we have seen, was that its short-run inflationary impact made it still more difficult to keep down the expectations as to the pace of price increases, at a level consistent with the 25 per cent ceiling programmed in the plan.

A similar choice of an emergency therapy intended to raise fiscal revenues but leading to what is usually known as "corrective inflation" - and whose short-run effects tend to destabilize expectations - was the import policy. For, on the one hand, the prescription for severe import controls favouring capital goods and inputs was consistent with the pro-investment bias. On the other, the increase in the costs of such imports, due to the new exchange-rate policy, would be reinforced by the fiscal measure mentioned above, namely, the compulsory deposits required from importers for 180 days and amounting to 80 per cent of the value of imported goods in exchange for negotiable Letras do Tesouro Nacional. Since these latter would be negotiable only at a discount rate determined by the effective expectations as to the pace of inflation such deposits worsened the financial burden laid on importers: the thus increased costs might be passed on to "final" goods. Moreover, in the absence of a financial reform, and particularly of instruments of public and private debt with a hedge against inflation, the reliance on short-run fiscal measures seems to have been overdone. A good instance of the difficulties involved is that the additional compulsory deposits required from the banking system (in change for Letras do Tesouro) were meant to raise fiscal revenues. However this might negatively affect the

liquidity position of the private sector, and act as an indirect incentive for the banking system to raise the cost of money.

One should keep in mind however, a first underlying trade-off which seems to enter the policy-makers calculations in order to boost business confidence (as far as the demand for their products was concerned). This is because the novel exchange-rate policy would automatically increase the revenues of the traditional export sector; but this should not necessarily imply a permanent transfer of real resources to that sector. Actually, the reversal of the anti-export bias was combined with a medium-term trade policy which contemplated an ever-increasing share of manufactured tradeables in the total of exports.

As to the optimistical expectations concerning the responsiveness of foreign investors, they rested, it seems on two calculations. The first concerned the viability of restoring business confidence, given the Government's determination to put the house in order. Again, also in this respect, the Plan used to play a decisive role. For unlike in the past, it contemplated both a package of anti-inflationary policies - which did include the selective use of the monetary weapon - and their coordination under the aegis of a new Ministry (Planning). The second calculation was the return, after the Plebiscite, to "institutional stability". For this latter, inter alia, and although in a different context, is pointed out as one important determinant of the decision to invest (p.13)..

The above mentioned expectations concern, of course, the responsiveness of entrepreneurs in general - domestic as well as foreign. However, what interests us here is to make explicit the policy-makers' stance with regard to foreign capital. For one thing, the pattern of association bequeathed by Kubitscheck is confirmed. Given the forthcoming negotiations with the IMF, it seems reasonable to conclude that the policy-makers dealt with this major area of uncertainty by assuming that the eventual reluctance on the part of foreign creditors to accept the gradualistic approach to stabilization

might be counterbalanced (and overcome) by the future prospects of a renewed burst of capital accumulation, in which the share of foreign capital would also be secured. This implied, of course, as far as the domestic front was concerned, a certain reliance on the Government's ability to keep control over the "destabilizing" political forces openly hostile to any substantial concession to the IMF's requirements (see chapters VI and VII).

* * * * *

Conclusions

To our view the difficulties involved in the choice of policies consistent with the stabilization-cum-growth strategy go beyond the otherwise relevant question - privileged by economists - of the technical adequacy of the short-run anti-inflationary weapons to the longer-run goal of achieving the growth target. For, as we have tried to show, there were political reasons as well as social goals which narrowed the range of the technically feasible policies. The other side of the coin, however, was that the actual choice of the "emergency therapies" - if in part dictated by the political necessity of holding the social compact together and the forthcoming negotiations with the IMF - was also bound to bring about additional strains in the political system (given their short-run inflation-feeding effects and/or pro-investment bias.) The most obvious among them was the difficulty for a popular Government to keep wage demands and salary increases (in the State sector) within certain bounds.

We would suggest that it is possible to observe an underlying "ideal timing" - that of planners - in the TYP endorsement of these sub-optimal solutions. It is as if some of the acknowledged political costs of the unpopular emergency therapies might be traded off, in the near future, not only by the growth effect but also by the Government's commitment to a

more substantial economic democracy. The latter was indeed related to the future prospects of Tax and Agrarian Reforms, aimed at meeting - and of course channelling - the popular demands.

The assumption behind the tacit trade-off between emergency therapies on the one hand and more fundamental medium-term solutions on the other seems to have been that a concerted effort of persuasion on the part of the Government was required and feasible, provided a "unity of views were reached" within the Executive. This was the sine-qua-non to secure continuity in the implementation of the prescribed short-run therapies. The political calculation underlying this trade-off was that the new Labour-Party government would exercise reasonable command over its political resources. In short, that some consensual discipline might be achieved.¹ In the minds of the técnicos, the TYP was thought to reconcile, "in due time", the various "economic interests identified with the progressive sectors of the nation". Years later, Furtado would say that the economic proposals advanced in the Plan were such that "all sectors would be satisfied": the industrial entrepreneurs, the exporters and the popular sectors.

It is worth making some final remarks concerning both the diagnosis and prescriptions. While it is true that the identification of the primary sources of disequilibria and the means proposed to tackle them are similar to those advanced in the plans of 1958 and 1964-5, as Wells sustains, the wage policy and the concern for incremental social reforms does not allow for the view according to which the TYP was a carbon copy of the PEM and of the PAEG.

1. Furtado, Interview ;and Advincula da Cunha.
Interview 16 December 1978 and 16 January, 1979.

On the other hand, the very fact that the policy-makers' attention was focused on the more immediate causes of disequilibria (just as in 1958 and 1964) and on adopting a pragmatic attitude vis-a-vis orthodox measures opens another front for discussion. We think it all important to requalify one of Hirschman's theses. The TYP does not confirm the case mentioned by Hirschman, according to whom Latin-American structuralists had been distracted from the task to revert disequilibria by means of conventional therapies. Hirschman's claim that the structuralist strategy of problem-solving had been overdone in Latin America does not seem to hold true in the case of the TYP proper. The search for "deep problems" - such as the land tenure system - believed to underlie the surface problems of inflation and to provide the rationale for an antagonistic approach to policy-making is not confirmed by the analysis of the TYP.

The emphasis given to the tasks of industrialization, planning and Latin American integration, i.e., the non-antagonistic ones, indeed had the upper hand in the TYP together with the more immediate policy goals of reverting internal and external disequilibria. In fact, these are presented as being in the interest of all. Both the timing and form of presentation of the relevant policies indicated that the more antagonistic tasks, i.e., what Hirschman calls "ideological escalation" were relegated to a secondary role.

Such a flexibility on the part of the Brazilian structuralists, might be explained predominantly by the fact that the técnicos nacionalistas had learned and/or developed their economic ideology while in power - after all, most of them were juscelinistas in the late 1950's. They were bound to be far more aware of the political compromises behind the "great leap forward", that is to say, of the political determinism which maintained within strict bounds a possible swerve towards an over-dose of problems and ideology.

That an over-dose of ideology existed in the 1960's is undeniable, but to our view, it should be sought elsewhere, as we intend to show in the last two chapters.

However, to our view, an over-dose of ideology may be found in the TYP. First is the somewhat "utopian" faith in the counter-active efficacy of planning. One might well speak of a "planning illusion" whereby a three-fold function is to be performed by the State, via its widened scope of intervention in the economic system. These are:

- 1) the entrepreneurial function, of directing and propelling capitalist development in Brazil;
- 2) the more immediate one of redressing economic disequilibria and
- 3) the reform function of promoting a more substantive social democracy, a function geared to making up for the traditional inability of the party system to absorb and to convert into policy goals the rising popular demands.

The State emerges therefore as the privileged locus wherefrom an overall view of the "national needs" as well as a scientific assessment of the relevant solutions were best attained. The analytical premise underlying the contention for systematic planning under the leadership of the State, found in pages 8-16 in the Plan could be stated as follows. Under-development was conceived as a "typical" structure - as a deformity - and not as a necessary stage on the path to economic and political adulthood (as typified by the "central" economies). Rather, it tends to recreate its own conditions as the process of capital accumulation proceeds and multiplies against a renewed background of foreign-exchange constraint until a point of economic deadlock would be reached, as the stagnation of the Argentinian and Chilean economies had abundantly shown.¹ As an object of

1. Strictly speaking, nowhere in the TYP may a "stagnationist" approach to the Brazilian situation be found. However, both the Chilean and the Argentinian experiences seemed to have been very much present in the minds of the policy-makers. They were interpreted as a "warning" against the limits to sustained growth inherent to "spontaneous development". One may say, therefore, that "stagnation" was present as the analytical "horizon" of the relevant policy-makers. Consistently, planning would have the function of a "preventive therapy".

scientific knowledge the very specificity of "underdevelopment" could only be identified by resorting to the methods of comparative history - alien to the IMF's evolutionary scientificism. Accordingly, a specific therapy was required which did preclude the reliance on the self-correcting mechanism of a free enterprise economy.

The concern to meet "economic necessity", so defined, in its own terms, appeared therefore as inseparable from an increasing State intervention in the economy and from the commitment to economic and social reform.

Still more than the faith in the counteractive efficacy of planning, to our view, another set of ideological factors constrained the structuralists perception of the intrinsic exigencies of the structure and dynamics of the economic system in Brazil at the time. The consumption biased pattern of capital accumulation bequeathed by Kubitschek, in which the leading sectors were those producing durables, required measures geared primarily to expanding the current demand for those products. Although the authors of the plan recommended the creation of a system of financial organizations to ensure the expansion of hire purchase credit, at the same time the Tax Reform inter alia was meant to penalize those sectors which represented the actual demand for durables: the high income earners. Thus the structuralists concern for redressing the concentrated pattern of capital accumulation, led them to overestimate the pace at which the productive structure could be adapted to the new pattern of demand they wished to shape via redistribution of fiscal penalties and of wealth, i.e., the agrarian reform.

CHAPTER VI

THE CHANGING NATURE OF THE POLITICAL CONSTRAINTS TO PLAN IMPLEMENTATION:

1959 - 1962

1. Introduction

The progressive breakdown of the social compact (the political understanding between the President, the ruling coalition in Congress, and the trade union leadership) provides the background for our analysis of the changing nature and extent of political constraints to plan implementation. We shall seek to show that the "growing pains" of disequilibrium were accompanied by political changes which obeyed a dynamic of their own, and which gathered such momentum that by late 1962 the struggle for control of the state became the dominant issue. We will mainly be concerned with the shifting alliances between the major political actors, running parallel to governmental initiatives of a reformist nature intended to absorb and channel newly emerging demands from those sectors excluded from the decision-making system. This will provide an understanding of the process which culminated at the end of 1963 in the final erosion of the "centre", both civil and military, and the paralysis of decision-making which characterised the final months of the Goulart regime. Our contention is that the political developments examined account for behaviour on the part of Brazilian policy makers at the end of 1963 which appeared to assume what Hirschman calls the invulnerability of the economy.

The progressive disruption of the social compact since the last year of Kubitschek's administration until the end of the parliamentarist interlude is inseparable from the vicissitudes of the Brazilian party system bequeathed by Vargas. The new realignments within the party system are crucial for the analysis of the political instability which constrained economic management under the auspices of the PTB in 1963. This is because, as we will try to

show, at every turn of events, in the face of the prominence acquired by "antagonistic tasks" since Quadros' ascension to power, each party faced internal dilemmas and failed to tackle them, and this precluded a political management of conflictive issues. One major implication, which we will try to point out, was the assertion of the moderating role of the military in the major conflicts.

*

Vargas had of course contemplated substantial changes in the form of incorporation of peasants into the political and economic system. However, the available evidence suggests that the debate on modifications to the land tenure system and the extension of labour legislation to the countryside was confined to official circles within those years.¹ Vargas placed an agrarian reform bill before Congress in 1953, the product of the combined labours of the técnicos of the Assessoria and the respected jurists staffing the special commission designated for the purpose. One of the key aspects of the bill - the granting of labour rights to the peasants - came under the jurisdiction of the Ministry of Labour, headed by Goulart at the time. It was under his prompting that the bill was sent to Congress. Again, in 1955 the PTB Convention decided to include among its conditions for supporting Kubitschek a demand for agrarian reform, and for the extension of social legislation to rural workers, along with a policy of agricultural credit to benefit small producers.

To judge by the fact that Goulart's initiative in 1962 consisted of reactivating the bill conceived at the end of the Vargas period, it seems valid to conclude that although restricted to a small circle of the political elite, and therefore less of a burning issue than the question of profit remittances by foreign capital or the struggle for Petrobrás, the basic outlines of the reformist approach to the agrarian question were laid down in the early 1950s by Vargas and Goulart together. This early initiative laid the basis not only

1. See Camargo, "A Questão Agrária": Crise de Poder e Reformas de Base, in O Brasil Republicano, ed. Boris Fausto, (São Paulo, Rio, Difel, pp. 113-187

for the reformist offensive undertaken at the PTB convention of 1955, but also for the later document of self-criticism with which the PCB marked its adherence to the populist movement.¹ In the early 1960s, then, the leaders of the union movement, with the explicit support of the semi-legal PCB, adopted some of the policy goals associated with Vargas, and added them to their established commitment to an ideology of economic nationalism.

This raises issues which relate to our discussion of Hirschman's argument. The fact that these goals originated with Vargas and his economic and legal advisers lends support to his view that the ideology of ECLA - dominant among the técnicos of the Assessoria - played an important part; in addition, the transmission of this ideology from the heir of Vargas through the leadership of the PTB to the labour movement, or in other words through the corporatist structure into which the labour organizations were inserted, gives weight to the view that reform "came from above". However, its efficacy as a mobilizing ideology in the early 1960s was owed to political and organizational factors which were not present at the end of the Vargas cycle: one of these was the presence of a new political actor, the peasant movement; another was the existence of links between its leaders and the new leaders of the labour movement, mediated by the PCB.² We shall return to this point later.

Secondly, we can apply the qualification which we made to Hirschman's theses regarding the role of técnicos in the 1950s equally to the leaders of the PTB who took the lead in reactivating the most radical components of the

-
1. The document emerged from the Vth Congress of the PCB, which took place between 29 July and 4 August 1960. It defined a popular front strategy against the latifúndio and imperialism, and proposed an alliance with progressive sectors of the national bourgeoisie. It also contained a self-criticism of the role of the party in the last Vargas years. See "Por uma justa linha política", Novos Rumos, 4 August 1960, reproduced in Carone, pp. 472-82.
 2. Although the participation of PCB militants in the labour movement in Brazil dates from the mid -1940's and was facilitated by the liberalization introduced by Vargas, it was in the early 1960s that labour leaders loyal to the PCB made decisive positional gains in the unions themselves and in inter-union organizations.

ideology of Vargas. We can say that during the Kubitschek government the existing tensions between the different factions of party political leadership were submerged for a number of reasons: the threat posed by the forces of civilian and military opposition coming so close to victory, the political cohesion brought about by a process of accelerated development, and the fact that real wages fared well until 1959, and reasonably in the two subsequent years, keeping pace with inflation. As with the técnicos, however, it can be shown that the years 1959-1960 represented a turning point for the labour movement, as it was at that time that the control function of populism began to lose its traditional efficacy.

*

Before we turn to a description of the relevant episodes we should first make clear our approach to the processes which underlay the sharpening of tensions inherent in the social compact which had been controlled or latent in the Kubitschek period. Of most relevance, obviously, are the demands for fuller participation in the social, economic, and political system coming from those left behind in the expansive phase of the cycle, the urban working class, and those excluded altogether from the populist pact, the rural workers. Firstly, they reveal the renewed stresses placed upon a comparatively rigid party system, and contribute particularly to an understanding of the internal divisions within each party. Secondly, though, in view of the great heterogeneity of demands emerging in the period, some criterion has to be established which enables us to select those conflicts most relevant to our analytical purposes: we concentrate, therefore, upon those which contributed most significantly to the destabilization of the existing balance of economic and political power.

We pay particular attention, then to two issues. The first is the demand for changes in the system of land tenure, and the priority attached by the leadership of organized social movements to non-entrepreneurial reforms such as agrarian reform, itself closely related to the reform of the 1946

constitution. The second is the revival of radical nationalism among the newly emerging leaders of the trade unions and the PTB. In contrast to the Vargas period, its destabilizing impact related directly to the fact that in the early 1960s the trade union leaders seemed better equipped to threaten the smooth working of the corporatist structure into which it had been tied since the 1930s. Thus their demands created conflicts in two areas, for they not only manifested hostility to foreign capital, but also challenged the social compact as it operated under Kubitschek. Above all, though, we are concerned with government policies and the political strategy adopted by the state to propel and direct these demands. Those initiatives and their impact upon the unity of the dominant coalition in Congress explain the realignment of the party system and the changing pattern of relationships between the executive and the legislature.

At this point we must introduce an issue whose significance has only recently been appreciated, as a result of systematic attention to the Quadros government. If one accepts recent evidence of a "reformist offensive" under Quadros,¹ given new dimensions under Goulart, an analytical problem is created. How does one account for continuity in the exercise of a reform function by the state through the executive in the early 1960s despite differences regarding official economic ideology, the "populist style" of each president,² and in particular the system of alliances to which each was committed? Evidence of a degree of continuity provides a useful baseline for an explanation of the conjuncture of political uncertainty between January and August 1961, which produced the first deadlock between executive and legislature, and makes for a better understanding of the cumulative adverse effects of successive

1. For a systematic account of the reforms proposed or contemplated by the executive in the Quadros government, see Aspásia Alcantara Camargo, "A Questão Agrária". op.cit, pp. 122-124.

2. Idem. For a discussion of this latter point in connection with the policies in the agrarian front.

institutional deadlocks of this nature on the capacity to govern of the coalition in power in the Goulart period. At the same time though, it makes obligatory an extension of the analytical framework within which the attempts of the state to pursue a reform function from October 1961 to March 1964 are examined beyond the identification of a particular economic ideology as a driving force, or the attribution of a specific role to a particular sub-sector of the political elite.¹

For this reason the reformist initiatives of Quadros and Goulart will be approached here as different modalities of a single pattern of active government behaviour. They will be seen as attempts to absorb and institutionalize the diffuse demands of a dispersed and heterogeneous electorate (under Quadros) and of organized social movements (under Goulart) in order to propel and direct a redistribution of political resources to the advantage of the faction of the political elite in power at the time. The ultimate aim can be defined by qualifying and broadening the analysis originally applied by Erickson to a more restricted area of analysis, the pattern of relationships between the structures of the state and working class politics.² In other words, the relevant government initiatives will be approached here as strategies utilized by a faction of the political elite to modify the outcome of a conflict already being waged between rival centres of power within the decision-making system, by broadening the scope of conflict through the incorporation of new individuals and parties to it. This implies a modification of the analytical framework used by Erickson, to include both the techniques employed by the executive under Quadros, and the "agrarian question". We feel, however, that this does not do undue violence to Erickson's approach. The

1. Hence the need to qualify one of the key assumptions made by Hirschman in his treatment of transition to bureaucratic authoritarianism.

2. Kenneth Erickson, op.cit., pp. 49-53.

"populist" techniques of action are envisaged by Erickson in terms compatible with our own approach to the period, as a strategy which cannot be dissociated from a system of electoral competition in which a conflict of narrow scope is broadened when a sub-sector of the elite seeks "to shift the balance of political forces" through the incorporation or co-optation of new allies. This applies to Quadros, whose political strategy corresponded to a new style of populism, which can be added to the traditional and radical forms defined by Erickson.¹ There is a more substantial reason for adopting a modified version of Erickson's approach. From 1959 onward there was increasing evidence of the active presence of rural workers on the political scene, as social unrest grew in the countryside, and the political elite of the centre-south became more aware of the conditions under which people lived in the depressed regions. The resolution of the "agrarian question", contemplated by Vargas in the early 1950s, emerged as the "pioneering task" which populism, understood here as a symbiotic relationship between the structures of the state and organized social movements, still had to carry out.² For this reason, political initiatives such as the extension of social legislation to rural workers, the extension of the franchise to illiterates, and the reform of the system of land tenure can be approached as aspects of the expansionist drive of populist urban leaders integrated into the system of decision-making. They were instrumental in winning the electoral support of new rural clienteles, and strengthening weak links with them or creating new ones. It is obvious that in principle, given the conditions of life in the countryside, this was not incompatible with support from political sectors outside the populist coalition. These were persuaded, whether by ideological or tactical considerations, that an

1. Ibid., ibidem

2. Ibid., pp. 27-46, and 49-152. For a broader discussion of the theme taking account of the new dimension of populism as a response to social movements in the countryside, see Aspásia Camargo, "Autoritarismo e Populismo, Bipolaridade no Sistema Político Brasileiro", Dados No. 12, 1976, pp. 24-5, and, more fully, "Mouvements Paysans et Crise Populiste", (Paris, Thèse de Doctorat, Troisième cycle, 1973).

institutional solution to the agrarian question was essential not merely for the broadening of democracy in Brazil, but even for its survival.

A further government initiative which can be seen as reformist to the extent that it sought to modify the political and economic role of Brazil in the international system was the "independent foreign policy" introduced by Quadros, governed by the principle of national self-determination, and combined with a diplomatic and commercial offensive aimed at opening relations with the communist countries. This departure from Brazil's traditional posture of alignment with the United States, at a time when the Cuban revolution was prompting a re-orientation of U.S. policy toward Latin America, should be seen as a relatively "autonomous" initiative in the sense that although once launched it attracted the support of moderate and radical nationalists, it is best understood as the result of the convergence of two different factors. The first was a re-assertion of a diplomatic tradition reactivated by Kubitschek based on a belief in the "hegemonic vocation" of Brazil in South America, re-inforced by consciousness of the growing bargaining power of Brazil vis-a-vis the U.S.A. arising out of recent changes in a shifting and conflictive international context. The second, more straightforward, was a search for new trading partners in an endeavour to reduce Brazil's economic dependence upon the U.S.A. in the face of a shrinking supply of foreign exchange and the prospect of a balance of payments crisis.

It is significant, in the circumstances, that the principal architects of the independent foreign policy, senator Afonso Arinos de Mello Franco, a moderate member of the UDN and a respected jurist, and Santiago Dantas, a PTB deputy from Minas Gerais at the time, both favoured and took an active part in negotiations with international credit agencies, and particularly the IMF.¹ The extent and scope of the conflictive character of such initiatives is not

1. The participation of Dantas will be discussed in greater detail below.

easily established. This is because of variations in relation to the systems of alliances to which Quadros and Goulart were linked, and, in the case of foreign policy, to different national and international conjunctures. The flexible approach to Brazil's international relations shared and practised by leading representatives of the moderate wings of the UDN and the PTB was a token of the possibility of a new type of political understanding of a progressive character which cut across party lines.¹

The destabilizing effect within Brazil of the Goulart government's commitment to the principles of an independent foreign policy and to accommodation of the IMF acted as a significant political constraint upon the implementation of stabilization-cum-growth policies. We have therefore dwelt at some length upon the theme. We shall return when appropriate to the actions and reactions of U.S. policy makers, and of IMF officials.

2. The "growth points" of political destabilization, 1959-61.

In its last years the Kubitschek government began to experience the first strains in the political arrangement upon which its legitimacy was based. They were contained by governmental action which accorded with the hegemonic interests of the dominant party within the ruling coalition, the PSD. There are two reasons, however, for commencing our analysis with an examination of the period between 1959 and 1960. Firstly, it allows us to set in historical perspective some of growth points of political destabilization which became more prominent in the Goulart period. Secondly, it allows us to contrast governmental behaviour in response to conflictive issues in the Kubitschek, Quadros, and Goulart periods.

A good starting point is the account of the period provided by Abelardo Jurema, the PSD deputy who served as majority leader in the Chamber of Deputies between 1958 and 1960, and was frequently called upon by Goulart

1. Further examples of the same phenomenon will be discussed below.

thereafter to draw upon his skill and experience as political co-ordinator of the majority bloc.¹ The contrast it presents between two experiences seen as opposite extremes - the Kubitschek and Goulart presidencies - is a useful guide to the political aims and the scope of the trade-offs which lay behind the unity of the congressional bloc of the PSD and PTB in the "years of confidence"; it also provides some important clues to the reasons for the final divorce between the two parties at the end of 1963:

"It is not common for good relations to exist between the President and the Vice President, or between governor and vice-governor... Even so, despite a tradition which does democracy little honour, relations between President Juscelino and his Vice-President, Goulart, developed normally throughout the period. There were slips, stumblings, and misunderstandings, but all easily corrected and neutralized by the party and congressional leaderships. The PSD and PTB bases, particularly at municipal level, fought each other hard, and incompatibilities multiplied with each election; this was reflected at higher levels of government. JK and Jango lent each other mutual aid, and as a result these conflicts did not have serious repercussions as far as the alliance between the two parties was concerned. In the Chamber and in the Senate the PSD and PTB blocs were able to act in harmony at all times..." (pp. 57-8)

Jurema gives a number of reasons for this. He argues that although within the ranks of the PSD and the PTB alike "there were dozens in favour of a separation", "their common origins - Vargas - indicated common paths for the survival of both". At the same time the existence of common enemies made clear the need for a strengthening of the union between them.² In addition, commitments made during the election campaign were observed throughout the period of government, enabling the pact between the two leaders to function out of respect for "the rules of the game". These rules included respect by the PSD leadership for the "traditional pattern" of distribution of posts at state, municipal and federal levels: the Ministries of Labour and Agriculture

1. In the period 1958-60 Jurema led a bloc of 226 deputies, from the PSD and PTB, and three smaller parties with different state-wide constituencies, the Partido Trabalhista Nacional, the Partido Social Progressista, and the Partido Renovador. Details from Abelardo Jurema, Sexta-Feira 13 (Gruzeiro, São Paulo, 1964).

2, Ibid., p.24.

were allotted to the PTB, Foreign Affairs and Finance to the PSD.¹ More significantly, the smooth working of the alliance was assured by the moderating influence of the líder máximo of the PTB, Goulart, in "social conflicts", and by the willingness of the PTB in general to confine itself to "minimal demands".

Jurema served Goulart loyally as Minister of Justice from mid-1963 to the end of this year, and his account of the contrast between the Kubitschek and Goulart governments is revealing, both for the evidence it gives of the dilemmas faced by Goulart as chief executive, and for the frankness with which it admits the strict bounds within which the labour movement had been kept under the banner of "class conciliation":

"I am convinced that in the social field ex-President Kubitschek owed to Sr. Goulart much of the tranquility which his government enjoyed, not least the rapid settlement of the strikes which occurred, always of minor significance. Goulart did not enjoy the same good fortune, for as President of the Republic he did not have a president of the PTB to "lay down the law" to his comrades. He himself had to resolve all the difficulties that arose, thus eroding his standing with employers and workers in turn. It was difficult for the President of the nation and the president of the PTB to co-exist pacifically and advantageously in the same person. The one who demanded the maximum had to be over-ruled by the one who conceded what was possible; the one who authorised repression in the name of law and order came into conflict with the one who led the masses in the name of improved standards of living; the one who engaged in dialogues with employers and workers came into conflict with the one who was already partial, by virtue of his presidency of a labour organization; the one who asked for a "yes" could be confronted by the one who had to say "no". (pp. 59-60).

Hence the final epigrammatic verdict on the conflicts which overcame Goulart, and the services expected from populist leaders. "Clearly, Goulart needed a Jango leading labour, as Kubitschek had had" (p. 59).

Finally, a decisive factor in the disturbance of the smooth working of the alliance was the reversal of roles between the two parties. Whereas in the past the PTB had been content with minimal advances, "under Goulart, it sought a reversal of positions, seeking to force the PSD to accept a minimum

1. Ibid., p.38.

number of ideological demands" (p. 60).

Despite this, there were signs of disruption in late 1959 and especially in 1960 which Jurema neglects to mention: on the wages front, in Congress, and particularly in the countryside. Even so, Jurema's account remains valid for the whole of the Kubitschek period, because the strains in the ruling party coalition were reduced or dispelled by the adoption of circumventing political strategies in the treatment of the "agrarian question", and by giving way to the demands of the PTB on the wages front in the last year of the Kubitschek period, as competition escalated between the UDN candidate, Quadros, and the PSD-PTB candidate, Marshall Lott. In addition, there are strong reasons to believe that the concessions to the PTB on the wages front in the electoral year of 1960 also obeyed a longer term political strategy, as the PSD was already committed to Kubitschek's candidacy for the presidency in 1965, and needed the support of the PTB and its electoral machine. It is Jurema himself, a confessed juscelinista, who suggests, with a degree of self-criticism, that from 1960-61 onward problems which needed urgent treatment tended to be under-estimated by the PSD, or at least viewed through the distorting lens of future electoral gains for the party, and the maintenance of its dominant position in the alliance.¹ There is much in Kubitschek's record which gives weight to this conclusion.

Such political calculations are an integral part of the history of the period from 1960 to 1963, and seem to justify the Estado de São Paulo, a spokesman for the opposition in the period, in its reiterated characterization of the PSD as "a limpet clinging to the ship of state".² On the other hand, the resources acquired through long intimacy with the centres of power facilitated

-
1. The 1946 Constitution prohibited the re-election of incumbents of executive positions or their relatives; in part this reflected wariness of attempted 'continuism' from Vargas.
 2. O Estado de São Paulo, various issues; the theme was particularly prominent in the period in which Quadros was President, and the PSD the majority party in Congress

the "political realism", with which the party leaders of the PSD sought to bridge the widening gap between their party base and that of the PTB in the Goulart period. Among such political resources was the astuteness of the leaders, including Jurema, demonstrated in their willingness to negotiate and their inventiveness in devising accommodatory solutions for successive institutional crises.

There is much, however, that is symptomatic in ideological terms in what Jurema omits from his account. The agrarian question provides an example of this, for it was emerging as an issue in the Kubitschek period, and was one of the few areas in which commitments arising from the election campaign and from formal assurances given to PTB leaders in the Chamber of Deputies were broken.

We shall begin with an analysis of developments in this area, as they illustrate two relevant points. The first is the existence within the PTB of an early reformist drive, reinforced by the first manifestations of realignment within the party system; the second is the confined legal and political framework within which the attempts of Quadros and Goulart to modify the legal code affecting the rural worker and the existing land tenure system were pursued.

2:1. SUDENE and the oligarchic pact: Circumventing the veto power of the "centre" in Congress.

The Furtado Report, the product of a technical commission set up by Kubitschek to study the conditions of life in the North-East, and the basis for the creation of SUDENE in 1959, represented an institutional and political watershed.¹ These initiatives signified an end to what had hitherto been a purely rhetorical approach to the agrarian question on the part of the

1. Celso Furtado, Uma Política de Desenvolvimento Econômico para o Nordeste ((Presidência da República, Conselho de Desenvolvimento, Rio, 1959)).

government.¹ In addition, the revelation of one of the greatest national stigmas, in a climate of developmentalist euphoria, had an effect on elite opinion in the centre south which was reinforced by the double merit of the source, as a technical report and a governmental initiative. It revealed that in that region of a million square kilometres, inhabited by 20 million people, the average annual income per inhabitant was below US\$100. According to the report 80 per cent of the population were illiterate, 60 per cent of infants died in the first year of life, and for 80 per cent of the population life expectancy did not exceed 35 years.²

The political implication drawn from the analysis, that the North-East represented "a threat of separatist revolution", is intelligible when set against a background of growing conflicts between rural workers and landowners for possession of the land, centred in Pernambuco. With these conflicts came the first organizational nuclei independent of the state - the Peasant Leagues led by Francisco Julião, through which an attempt was made to articulate and give political direction to the peasant movement. The Catholic Church was also involved, having first registered its protest with the call in 1956 from the Conference of North-eastern Bishops for immediate corrective action on the part of the state.³ Such developments should also be set against a shifting international background in which the Cuban Revolution prompted the Brazilian government to favour a political management of conflictive issues.

The creation of SUDENE corresponded to a pattern of corrective action on the part of central government, through the integral planning of regional development. It had the support of the majority of the governors of the eight states in the designated region, some of them elected by the UDN.⁴

1. For a detailed analysis of the gulf in the past between rhetoric and practice, see Camargo, "A Questão Agrária..", op.cit.

2. Furtado, op.cit. p.7.

3. Camargo, "Autoritarismo e Populismo", pp. 35-6.

4. Camargo, "A Questão Agrária", pp. 165-168.

Agrarian reform was not proposed. The major thrust as far as policy was concerned was for the mobilization of federal financial resources through regional development banks in order to provide new opportunities for industrial development and the modernization of agriculture and livestock farming. It was intended that investments should be labour intensive, and promote the use of local materials. A package of fiscal and credit incentives was proposed, to attract a massive flow of private investment from the centre-south; it was to be complemented by public investment in infrastructural projects.

The new policy-making agency was undeniably reformist in intent; it proposed a new form of incorporation of the exploited peasant into the economic system, and hence the avoidance of a revolutionary explosion. It provoked mixed reactions. It was strongly endorsed in the pages of O Jornal do Brasil by Antonio Callado, the first writer to give sympathetic treatment to the Peasant leagues,¹ but was harshly criticised by Julião, who felt it fell short of the recommendations put forward by ECLA.²

The launching of SUDENE reflected a non-populist form of governmental action. Dating from 1959, it preceded by two years the emergence of parallel organizations in the countryside, the rural syndicates through which progressive sectors in the church on the one hand and the Communist Party on the other sought to establish control over the movement. In addition, although the rural syndicates were intended as a programmatic and organizational alternative to the leagues, the leaders of each came together in 1962 at national level, with the support of the leaders of the PTB. The common platform combined challenges to the existing land tenure system with demands relating to the rights of labour.³ It enjoyed the support of the urban labour leaders. It

1. Antonio Callado, Os Industriais da Sêca e os Galileus de Pernambuco (Rio de Janeiro, Civilização Brasileira, 1961).

2. Camargo, "A Questão Agrária", pp. 167-168.

3. Camargo, "Autoritarismo e Populismo", pp. 35-6.

is only from 1961-2 onward, then, that it is possible to speak in terms of the constitution of a leadership of the peasant movement of national scope, populist in character in the sense that a faction of the political elite resorted to organizational techniques which combined mobilization with control of emerging popular movements. In the words of Camargo, "it was from 1962 on that there occurred the interpenetration of the two streams of the peasant movement", at the same time that it "became integrated into the populist movement, and linked to the state".¹

SUDENE is best understood as a conflict minimizing strategy on the part of the executive where the agrarian movement was concerned. Analysed in the context of the events which preceded its formation, it appears as yet another circumventing strategy aimed at by-passing the veto power of Congress. This had been exercised annually from 1956 to 1958 when successive efforts had been made by a sector of the PTB in the Chamber to implement one of Vargas's projects: the extension of social legislation to rural workers.

The attitudes of the leaders of the PSD in Congress, alongside those of the UDN, were decisive in blocking three bills in the hands of a special committee in the Chamber of Deputies despite the fact that Kubitschek had initially supported the author of two of the bills, the PTB deputy Fernando Ferrari. The third bill, a compromise put forward by José Joffily of Minas Gerais, a leading member of the "ala moça" (youth wing) of the PSD, lingered for months in the various special committees of Congress, thanks to the opposition to it from the "rural block" of the PSD.²

Kubitschek's eventual withdrawal of support represented a refusal to consider a general and national solution to the definition of a Statute for the Rural Worker, to which the bills had been addressed. In the circumstances

1. Ibid.

2. Camargo, "A Questão Agrária", pp. 158-162.

SUDENE appeared as an institutional response, restricted to the most explosive area of the country. It also required the approval of Congress, but it was doubly attractive in that it did not alter the legal status of the peasant, yet did offer state subsidies for investors in the north-east and in the centre-south, thus bringing sectors of the political and economic elite with an interest in modernization into the coalition behind it.¹

*

These developments in Congress raise two related sets of problems, to which we now turn. The first concerns the trends, already apparent between 1957 and 1960, toward a realignment within the party system. The second relates to the underlying causes of the inflexibility of substantial sectors of the PSD, when faced with the prospect of a modification of the place of the rural worker in the social and economic system, even in the case of mild reforms as it was the case of the extension of social legislation to the peasants.

As far as the first point is concerned, the bills mentioned above revealed the existence of a reformist drive within the PTB, even before the peasant leagues appeared, and the presence of a group within the PSD, the ala moça also open to reform. Joffily, a member of the latter group, was also a member of the recently founded FPN (Nationalist Parliamentary Front), a multi-party nucleus in Congress, composed mainly of PTB deputies, but also including some members of the PSD and of the small Christian Democratic party (PDC), which was growing rapidly in São Paulo. The FPN was the first congressional grouping whose members were brought together by primarily ideological considerations, going beyond nominal allegiance to existing parties. By mid-1959 the nationalist and reformist programme of the FPN, included, in a somewhat more moderate form, a number of the conflictive tasks to which their political action would be directed at a later stage. In addition to the creation of a legal statute for rural workers along the lines of existing labour legislation and the need for agrarian reform, it contained the following items: a) a vigorous struggle in

1. This is not to deny the impact of SUDENE as a mechanism for the redistribution of political resources. It eclipsed and displaced long-established state and federal agencies which had become sources of patronage controlled by local oligarchies, the most conspicuous being DNOCS, the National Department for Works against Drought. In this sense SUDENE had the effect, probably intended, of dislodging the traditional sectors from decision-making positions in the region

Congress for the bill on returns to foreign capital and profit remittances", put forward by one of its members, Sergio Magalhães, and "the definition of the concept of a Brazilian enterprise", b) the formulation of an "independent" and redistributive economic and financial policy, which entailed a progressive tax reform, and c) the "denunciation of the growing penetration of entreguista elements" in the organs of government concerned with the economy, in "flagrant contrast with the firm attitude of the government in the recent episode of resistance to the intolerable demands of the IMF".¹

It is important to recall here the role of the PSD in obstructing bills proposing the extension of labour legislation to the countryside, although not seeking to introduce programmes of agrarian reform.² The bills in question proposed a) the setting of general norms for regulating conditions of work in the countryside, in terms sufficiently broad to cater for the existing range of relations of production; b) the granting of basic rights such as a minimum wage and the right of rural workers to organize trade unions; c) the setting of legal ceilings on rent paid by tenants, as in some regions close to major centres of consumption this could reach an annual rate equivalent to 40 to 50 per cent of the value of the land; the ceiling proposed by Ferrari was 20 per cent, by Joffily 30 per cent. It is worth recalling that Kubitschek himself had drawn attention to the problem in his presidential address of 1956, and noted it as requiring attention from the government.³ These initiatives did not amount to a challenge to the monopoly enjoyed by the land-owners; they simply sought to set legal limits to the privileges they enjoyed.

*

In view of the foregoing, we might consider whether the regulation of working conditions in the countryside and the setting of ceilings on rents

1. O Estado de São Paulo, 11 July 1959.

2. Camargo, "A Questão Agrária", pp. 158-162.

3. Ibidem.

could be classed as antagonistic tasks in their own right, regardless of the absence of a direct challenge to the land tenure system. Congress, and sectors of the PSD in particular, would adopt the same obstructive attitude in subsequent years to similar initiatives from the executive, and the Rural Workers' Statute would not be introduced until March 1963, at a time when the executive, in the hands of a radicalized PTB, was pursuing a reformist offensive which not only included a more radical agrarian reform proposal, but also took place in the context of popular mobilization encouraged by the leaders of the PTB as a means of bringing pressure to bear on Congress.

Resistance to the extension of legal rights to the countryside reflected the vested interests represented in Congress. They enjoyed a privileged position there for two mutually reinforcing reasons. The first was the nature of the PSD, the largest party in Congress, occupying the political "centre". The second was the leverage enjoyed by deputies from the most backward states, linked to the interests of economically decadent oligarchies and/or to conservative sectors in those areas, as a result of the peculiarities of the representative system introduced by the 1946 Constitution. We shall treat each of these factors separately, in order to determine the political and legal constraints upon reformist initiatives on the agrarian question. This in turn will help us to set the stage for an account of realignments within the party system in response to these initiatives.

*

It is clearly established that the bases of the PSD at state level, which controlled the political machinery of the party at local level, were directly linked to a faction of the regional oligarchy,¹ the faction which had been co-opted, at the cost of its previous political autonomy, by Vargas's centralizing policies in the 1930s. After 1945 the bargaining power of all factions of the oligarchy vis-a-vis the government was increased, as a result

1. Campello de Souza, op.cit., pp. 83-138 and Camargo, "Autoritarismo e Populismo", pp. 23-30.

of the control of votes at local level and hence over party electoral machines. This was as true in the states of the centre-south as it was in the depressed regions. The domination enjoyed by the oligarchies, then, rested on two foundations which were inseparable after the return to democracy: monopoly over the land, and control of the vote.¹ Consideration must also be given to the PSD and its position at the "centre" of the party political spectrum. It stood between the UDN on the one hand, which drew for its regional bases upon the dissident factions of local oligarchies, dislodged by Vargas, and the PTB on the other; its articulation with the latter party within the decision-making system was based on the assumption that the dimension of control within the populist compact would prevail over the dimension of mobilization, even where popular urban movements were concerned.

In the circumstances it is evident that the extension of labour legislation to the countryside threatened basic political and economic privileges associated with ownership of the land, and created the conditions for solidarity between the UDN and the PSD. Each party derived advantage from controlling the political allegiance of rural clienteles in the relatively stable "zones of influence" of local caciques, through a complex system of personal loyalties, economic dependence, and the manipulation of patronage resources. Proposals of universal scope such as unionization, the regulation of working conditions, and minimum wage legislation, if implemented, presented a series of threats. The power to fix labour costs and land rents in the countryside would be limited by or transferred to another authority, as it would depend upon the arbitration of the federal executive. In addition, while the increase in labour costs could certainly be borne by prosperous regional oligarchies such as those of Minas Gerais and São Paulo, it meant a severe squeeze on the income of those in zones of economic decadence, as for example in most of the states of the North East. The economic survival of the latter was ensured by a

1. Camargo, "A Questão Agrária", pp. 123-5.

combination of relatively harsh forms of direct exploitation of labour and/or extraction of rent, and the systematic transfer to the region of federal resources, in order to ensure the smooth working of state political machines, or to enlist the support of federal representatives of the area for the modernization programmes launched by the federal government.¹ Finally, in a longer term perspective, the introduction of labour legislation created the material conditions for a new type of relationship between rural clienteles and central government, as the presence of the state in the setting of minimum wages and in the monitoring of the implementation of labour law would make it the major intermediary available to rural clienteles, and also create a new environment for demands for change, thus facilitating the emergence of class consciousness among workers.

We wish therefore to draw attention to a point that has received little treatment in the literature, which is mainly concerned with the subversion of the system of alliances between the state and the oligarchies deriving from the call for agrarian reform. In our view, even the less radical initiatives which did not imply a redistribution of wealth were bound to set in motion a process of redistribution of political resources in favour of rural workers. This process, we believe, was strong enough to shake the bases of the "oligarchic pact" which complemented the populist pact. As a result, it shook the system of alliances upon which a political understanding had been constructed between the executive, the legislature, and a union movement limited to urban workers. It was through the same political arrangement, it should be recalled, that modernizing initiatives undertaken by the state such as intensive industrialization, and the enlargement and partial rationalization of the state sector, had been made compatible with the interests of the decadent oligarchies, and, in more general terms, with the continued existence of the bases of oligarchic domination.

1. See our analysis in Chapter III of mechanisms of co-optation within Congress.

As we have seen, the PSD played a central role in this process. This is explained in part by the heterogenous nature of its leadership, which included modernizing sectors of the financial and industrial elite of the centre south. The historical function of the PSD is best understood, however, in a longer term perspective, as that of a political elite playing a specific role in the political process in Brazil. In the words of Camargo,

"If we were to define the Brazilian political model in terms of its successive readjustments over the historical period (from 1930 to 1964), we would say that one of its basic characteristics is that it has generated a political class linked simultaneously to landed interests and to the performance of the functions of government".¹

It is precisely this double dimension to the PSD, which leads one writer to refer to it as a "rural-bureaucratic chamaleon",² which provides the basis for an understanding of the conjunctures of uncertainty created after the victory of Quadros. It illuminates the comparative inflexibility of the political and congressional bases of the PSD whenever confronted with fundamental changes on the agrarian front, and its steady movement to the right in the face of reformist initiatives. It also reveals the dilemmas posed as a result for the leaders of the party, for it was not only a part of the ruling coalition in the Goulart period, but also committed to seeking a return to power with Kubitschek in 1965.

*

The emergence of Congress as a privileged forum for conservative interests is frequently related in the literature to the nature of the system instituted by the 1946 Constitution.³ This established the principle of majority

1. Camargo, "A Questão Agrária", p.123

2. Campello de Souza, op.cit.

3. See Celso Furtado, "Obstáculos Políticos ao Desenvolvimento Econômico", Revista Civilização Brasileira, No. 2, 1965, and Glaucio Soares, "El sistema electoral y la representación de los grupos sociales en Brasil", Revista Latinoamericana de Ciencia Política, Vol. 2, No. 1, 1971. For a more sophisticated analysis of the political function of Article 58 of the Constitution, see Campello de Souza, pp. 124-134.

representation for state and federal executives and for senators, while members of the federal chamber and the state assemblies were elected on a system allegedly proportional, in accordance with the geographic distribution of the population by states. Such were the terms of Article 58 of the Constitution, however, that representation in the federal chamber, which it concerned, was far from being effectively proportional up to 1964. Article 58 stated that

"The number of deputies shall be fixed by law in a proportion that shall not exceed one for each one hundred and fifty thousand inhabitants for the first twenty deputies, and beyond this limit one for each two hundred and fifty thousand inhabitants.

- 1: Each territory shall have one deputy, and the minimum number for each state and the federal district shall be seven deputies.
- 2: Once established, the number of representatives may not be reduced".

Thus one state might have twice the population of another, but would elect fewer than twice as many deputies; the vote of a citizen in a more populous, industrialized, and urbanized state, with a broadly diversified socio-economic structure, would therefore be devalued. The discrepancy was reinforced by the stipulation that only literate citizens could vote, as the number of illiterates in the more backward states was proportionately higher, and the number of voters correspondingly fewer. The conservative interests were therefore over-represented in Congress. Soares presents data which relate the composition of Congress to the perceived contrast between a progressive executive and a conservative legislature. Against a standard of strict proportionality he finds that São Paulo was under-represented to the extent of 27 deputies; other states under-represented were Minas Gerais (17), Bahia (8), Rio Grande do Sul (7), Parana and Pernambuco (3 each), and Rio de Janeiro and Guanabara (1 each). Against this, the remaining states between them had 18 deputies too many. At the same time, the equal representation given to each state in the federal senate meant that very different populations in terms of size and composition emerged with the same number of representatives.

Despite the under-representation of the state of Minas Gerais in the federal chamber, the ruralist bloc of the PSD there, and the state representation

in general, emerged as the most effective nucleus of opposition to substantial changes on the agrarian front. The PSD in Minas had strong rural roots, and a politically effective leadership, but this is not a sufficient explanation of the role played by the state. The leaders of the PSD there gained substantial advantage from the privileged position of the larger parties in Congress (the PSD being the largest of all) in the creation and staffing of permanent commissions, and the appointment of their presidents. These latter were empowered to dictate the way in which the commissions would work, and to name individuals to present bills in the chamber.¹ The commissions had the power to delay for months or even years the presentation of bills on the floor of the house for voting, and the leading conservative parties, the PSD, the UDN, were well-placed to reach agreements among themselves on the use of such tactics. The authoritarian regime which came to power in 1964 introduced legislation immediately, though Institutional Act no. 1, to limit the delaying powers of Congress; the guillotine (decurso de prazo) introduced to give bills presented by the executive automatic passage if not considered within a fixed number of days was confirmed in the 1967 constitution, and is today one of the major targets of the opposition as it bids to restore the powers of the legislature.²

2.2 The Quadros government: the performance of the reform function by the state, and the weakening of civil power (January to August 1961).

To judge by the scope of the policy goals of the Quadros government, the sector of the political elite that had taken charge of the decision-making system gave particular weight to the reform function. The seven months of the Quadros government witnessed intensive reformist activity from the executive, but the frustration of its basic objectives. Reformist initiatives were launched on several fronts, going beyond the "entrepreneurial reforms" discussed

1. Campello de Souza, p.134.

2. See Institutional Act No. 1, and the 1967 Constitution.

in the last chapter.

It is at first sight puzzling that the Quadros government, drawing its political support from sectors such as the UDN and its military ministers, identified with anti-communism and anti-nationalism, should have attempted reforms that were redistributive, in Hirschman's sense of the term, favouring sectors that had fallen behind. The clearest examples of this were the initiatives on agrarian reform, the Rural Workers' Statute, and the provision of special credits for small farmers, hitherto excluded from the official credit system. In addition, federal support made it possible to extend to national scale the system of literacy by radio which had been introduced by the Church in two of the poorest states of the North East.¹

The adoption of a neutralist foreign policy, and the commitment of Brazil to the non-aligned group of Third World countries also dates from this period. This departure from the traditional pattern of cooperation with the United States was based on the assertion of Brazil's hegemonic vocation within South America, although in some ways it was a response to economic necessity arising out of the poor performance of the foreign trade sector. It was characterized by the restoration of relations with the Soviet Union, the sending of commercial missions to Eastern Europe and to China, and the defence of the principle of non-intervention and the right of peoples to self-determination, exemplified in support for revolutionary Cuba and solidarity with African governments such as that of Lumumba. This new orientation confirmed the stance adopted by Quadros as a candidate in 1959, in his speech in Cairo and subsequent visit to Cuba.² He was profoundly impressed by the concentration of power in Castro's hands and the wide range of structural reforms carried out in Cuba, while contact in Havana with Francisco Julião, the leader of the Peasant Leagues,

1. These hitherto neglected initiatives are well documented in Camargo, "A Questão Agrária", pp. 168-75.

2. Camargo, p.170.

awakened his sympathy for the marginalized peasants.

More significantly, the participation of foreign capital in the economy again became an object of governmental concern. In this period two groups of técnicos were asked to draw up bills limiting remittances of profits on foreign capital, and establishing priorities for investments of this kind, in accordance with nationalist criteria: their contribution to development and to national security. The profit remittances bill actually sent to Congress alongside an anti-trust law was proposed by the nationalist group led by the Minister of Mines and Energy, edging out a more moderate project presented by técnicos of the cosmopolita group associated with Bulhões.¹

These policy goals, along with agrarian reform and the pledge to penalize unproductive latifundia through tax reform had been dominant themes in the election campaign, and occupied a substantial portion of the Presidential Message to Congress of March 15, 1961.² The message was delivered, interestingly enough, just two days after Kennedy launched the Alliance for Progress. It also proposed fiscal and administrative reforms, reflecting the adoption of liberal economic policies, foreshadowing the exchange reform and the move to reconciliation with the IMF, analysed in the previous chapter.

Undoubtedly, policy goals such as the reorganization of the taxation system, the freeing of public utility prices, the rationalization of a swollen and poorly coordinated system of administration, and the allocation of public resources in accordance with predominantly economic criteria can be classified as "entrepreneurial reforms". They sought to remove institutional and financial obstacles to a renewed process of capital accumulation; along with the reversal of inflation, they were seen as instrumental in facilitating the exercise of the entrepreneurial function in the public and private sectors.³ But

1. Ibid., p.179.

2. Mensagem ao Congresso Nacional, Brasilia, 1961, pp. 69-70, 81, 85-86.

3. Interview with Clemente Mariani, CPDOC, 9 May 1978.

these measures were not neutral in their distributive effects. They implied a reallocation of privileges and penalties among different economic agents, and dislodged certain sectors of the bureaucracy from favourable positions. In addition, Quadros' commitment to a progressive tax reform bore witness to his attentiveness to the popular sectors, while the campaign for the moralization of administration responded to the demands of broad sectors of the middle classes. In his own words, Quadros "could not frustrate the faith placed by the people in a clean, courageous, independent, and honest government".¹

The impact upon the political system of a reformist offensive unparalleled since the 1930s was not owed only to the nature and scope of the policy goals announced. Its destabilizing effect was increased by the techniques, timing, and manner of presentation of government action. Measures such as the exchange reform were introduced abruptly, without prior consultations among the political elite; tasks which should have fallen to the planners were taken over by the president, most famously in the case of the personal notes (bilhetinhos) sent out in floods to members and areas of the bureaucracy; inquiries into corruption among politicians associated with the outgoing government or into the 'political' (clientelistic) use of the resources of social security institutes by the PTB and by union leaders were launched in an aggressive and persecuting spirit.

Set against this was the fact that the exchange reform of 1961 was presented to Congress by the Treasury Minister as a measure designed to reduce regional inequalities, as the subsidies to industry and the anti-export bias of the previous exchange regime had favoured the centre-south over the exporting regions of the depressed north-east.² Finally, a policy goal which gave the measure of Quadros' intentions, although it never became an official proposal, was the freeing of labour organizations from the corporatist structure,

1. Interview given by Quadros to O Pasquim, 24-30 June, 1977.

2. Sources: *A Quebra da Agrária* pp. 170-177

and the elimination of the imposto sindical.¹

*

Although these initiatives were consistent with the establishment of an 'independent government', they were bound to breed points of attrition not only between the government and the major opposition parties, but also with the party and military support of the government itself. The combination of reformist and nationalist objectives with liberal economic policies and reconciliation with the IMF, at the same time, was bound to confuse and divide the nationalist left.

Measures such as the independent foreign policy, the projected profit remittances law, and agrarian reform were a total contradiction of the long-established image and tradition of the UDN, whether as perceived by the majority group in the party, known as the banda de música, or as sustained by the extreme right, represented by the party in Rio de Janeiro, and led by the governor of Guanabara, Carlos Lacerda. During the "years of confidence" the anti-Vargas line of the party was converted into anti-nationalism and anti-communism a outrance.² On the other hand, liberal economic policy, the moralization of administration, and the dismantling of the Vargas model of labour organization were all fundamental planks of UDN philosophy, and explain the "euphoria of government" which gripped the party at its April 1961 convention.³ The internal solidarity of the party was maintained at the "victory convention", and reflected in the election of representatives of the majority group, Herbert Levy and Ernani Satiro, as president and vice-president of the party respectively. There were however two conflicting tendencies within the party. The first

1. Although employees, employers, and the state were meant to contribute equally to the social security fund, employers and the state failed to meet their obligations. The employers fell into arrears and made them good after inflation had made the sums involved nominal, while the state was persistently in debt to the system.

2. Benevides, M.V.M. A UDN e o Udenismo, 1945-1965, Paz e Terra, São Paulo, 1981, pp. 113-118.

3. Ibid., p.113.

was represented by the "bossa nova" group, emerging out of a progressive Catholic organization, with a programme similar to that of the left of the PTB in that it stressed the need for structural reforms. Although a minority group within the party, it came to be the principal support base for Quadros inside and outside Congress, furnishing the most influential of his political advisers, José Aparecido. At the other extreme was the lacerdista wing, whose ascendancy within the party was reflected in its conquest of important positional gains at the April convention.

It is nevertheless the case that the principal initiatives of the Quadros government were pursued by a different tendency within the UDN, the "historic liberals" directly located within the decision-making system. The históricos were the principal architects of the initiatives which had the greatest effect upon the political system. Clemente Mariani was responsible for economic policy; Afonso Arinos de Melo Franco, Minister of Foreign Affairs, shaped foreign policy with the direct collaboration of Santiago Dantas, of the PTB, the leader of the Brazilian delegation to the Punta del Este conference at which the tercerista position of Brazil within the OAS was made official; finally, the commission charged with drafting the land statute (Estatuto da terra) was presided over by senator Milton Campos, whose reputation as a jurist and pragmatic approach fitted him for this extremely delicate task, which entailed finding a way round constitutional provisions which made the expropriation of private wealth without the creation of heavy financial burdens upon the state problematic. Milton Campos turned to at least three members of the recently created commission who were identified with the nationalist group, and had been prominent members of Vargas' Assessoria, and the Clube dos Economistas. These were the economists Pompeu Accioli Borges and Rômulo de Almeida, the principal architects of the bill sent to Congress by Vargas in 1953, and Ignácio Rangel; their influence was increased by the participation of one of the most vigorous proponents of reform, the Bishop of Recife and Secretary of the National Conference of Brazilian Bishops, (CNBB)

Dom Helder Câmara.¹

*

In the light of the nature and scope of these initiatives, and of Quadros' political campaign aimed at giving the executive greater autonomy vis-a-vis rival party and military centres of power, we are better able to understand the process of realignment among the principal political actors within and outside the decision-making system. The instances cited above show that there is some merit to the técnicos nacionalistas' view of themselves as constituting a "pool of political resources" whose principal asset was their technical knowledge and experience. This enabled them to adopt a pattern of indirect political action, outside parties. This is as true for Furtado as for anyone else, for Quadros gave SUDENE financial support, and made its Superintendente minister without portfolio.

The ambiguity of the policies pursued by Quadros explains the destabilization of his coalition, and the progressive weakening of his government. It relates back to the image and tradition of the UDN, and the tradition of alignment with the United States which was strong among the sectors of the Superior War College with which the military ministers were linked. This explains the ambiguous position of the UDN, in the words of its president "in power but obliged to support policies which were not its own"; in addition, broad sectors of the party had little sympathy with the populist techniques of direct appeal to the masses.² Quadros referred in his resignation message to the "exemplary behaviour of the Armed Forces", and recent research has confirmed this description; even so, there is evidence of a rapid deterioration of relations between the President and his military staff.³ The Ministers, Denys, Moss, and Heck, were known sympathisers with the UDN, and Moss and

1. Camargo, "A Questão Agrária," pp. 172-187.

2. Benevides, p.114.

3. Benevides, p.217.

Heck had been associated in the 1950s with the calls for preventive coups which had been the trademark of the banda de música. Heck was involved in the coup, frustrated by Marshal Lott, aimed at preventing the accession of Kubitschek. By the end of the Quadros period, the ministers had shifted their loyalties to the lacerdistas groups disaffected or in open dissent.¹

The destabilizing effect of the reformist offensive was magnified by Quadros' neglect of the elementary rules of parliamentary democracy, leading the UDN to claim that it was not consulted over key decisions.² The same authoritarian tone marked his refusal to allocate political resources in accordance with established criteria, with reference to the "particularistic" interests of the parties. In a recent, ethically charged memoir, Quadros placed the legitimacy conferred by the people upon his programme above what he considered the "politics of captaincies and feudal domains". To behave as Kubitschek had done, and "give the Treasury to one group, the Ministry of Agriculture to another, etc", was seen by Quadros as damaging to his image, and the direct bond created between himself and 5.5 million voters, 48 per cent of the total. He concluded:

"Thus, I could have accepted the situation and governed for five years... then indeed I would have frustrated all my reformist ideas and all the faith placed by the people in a clean,... independent, and honest government".³

Furthermore, recent evidence suggests that Quadros' political strategy sought to establish new alliances, which, had they been consolidated, would have also strengthened the executives at state level. From the start of his period of government he sought to build closer relations with the state governors most open to reform, without regard to their party ties.⁴ Although

1. Jaguaribe, *Revista Brasileira de Ciências Sociais*, vol. 1 no.1, Nov. 1961, p.261; and Heck, "Depoimento", Folha de São Paulo, 23 August 1981.

2. Benevides, p.117.

3. Interview, O Pasquim, 24-30 June 1977.

4. Camargo, "A Questão Agrária", pp. 183-5.

this strategy was not systematically developed, it involved such key governors as Carvalho Pinto of São Paulo (PDC), Cid Sampaio of Pernambuco (UDN), Magalhães Pinto of Minas Gerais (UDN), and Brizola of Rio Grande do Sul (PTB). All these initiatives were bound to have a destabilizing effect upon the political system, frustrating the aspirations to govern of the UDN, making Congress appear, in the eyes of a public sensitive to new demands for reform, as the major pole of opposition and pointing up the contrast between the reformist axis represented by the governors mentioned above, and a conservative group around members of the UDN far more moderate than Lacerda, such as governor Juracy Magalhães of Bahia.¹

*

In a presidential regime such as that of Brazil the personal style and techniques of action of the President are relevant to political analysis. Nonetheless, the pattern of governmental behaviour is also the result of a balance - less than even-handed in our case - sought between rival centres of power, rather than a purely autonomous datum. The rapid disintegration of the Quadros government and the final deadlock between executive and legislature must therefore be placed in perspective.

The commitment of Quadros to reforms and to nationalist policy goals, along with the control of inflation, the moralization of administration, and the restructuring of the labour organizations bequeathed by Vargas, provided the fundamental issues of the campaign. Hence his appeal to a dispersed and socially heterogeneous electorate, taking in the middle classes, and urban and rural workers. Once in power, however, Quadros was faced with the task of producing legislation on the policy goals legitimated in the election victory. To this end he needed to win backing from a Congress whose members, as we have seen, were elected on a system of proportional representation, and who were therefore far more closely linked to specific electorates with

1. Comunicado do presidente da UDN ao ministro da Justiça, cited in Benevides, p.117.

relatively homogeneous interests than he was. It is to this that Jaguaribe attributes the institutional impasse which preceded Quadros' resignation.¹ The interpretation is supported by the testimony of two of the participants in the drama, the former Minister of Foreign Affairs Afonso Arinos de Mello Franco, and Tancredo Neves, one of the leaders of the PSD. The former places substantial explanatory weight on the "duality of principles within the representative system in Brazil", while the latter points to the rapid obsolescence of the 1946 constitution in the face of the changes, and the new demands, brought about by accelerated growth. Both thus identify the narrow political and legal framework as a fundamental constraint upon the exercise of the reform function by the state. According to Arinos de Mello Franco:

"I think that two types of reasons led the president to resign: one was personal, and the other political and institutional. On the first ... I prefer not to comment. The second, of a political nature ... resulted from the contradiction between the concentration of power in the hands of the President of the Republic and the division of the parties through proportional representation. Brazil is one of the few countries which admits a dual system of presidentialism and proportional representation. The President did not have the support of Congress to carry out the programme on which he had been elected. Hence his resignation".

Similarly, Tancredo Neves draws attention to three factors: the lack of communication between the executive and "fundamental and basic sectors" such as Congress and the Armed Forces, "the unforeseen effects, in all their extent" of the exchange reform of March 1961, and finally an institutional cause:

"the basic and fundamental cause was the lack of operational instruments for governing the country. The 1946 Constitution was exhausted, worn out, and no longer had the power to discipline the diverse manifestations of social, economic, and political activity... It was the magnitude of the problems facing Janio Quadros and the poverty of the means to tackle them which led him to resign".²

1. Jaguaribe, op.cit.

2. Interviews with Arinos de Mello Franco and Tancredo Neves in special edition on twentieth anniversary of resignation of Quadros, Fôlha de São Paulo, 23 August 1981.

These general problems were felt even more acutely when Goulart came to power. A further factor specific to the Quadros government should also be taken into account. To judge by the reactions of party representatives in Congressional debates, an additional obstacle to the conversion of policy goals into legislation lay in the fact that the programme was eclectic if measured against the long term political calculations of the three major parties which dominated Congress. The agrarian reform, foreign policy, and profit remittances initiatives revealed the rigidity of the two conservative parties, UDN and PSD, while even the PTB co-operated only in a vacillating and occasional manner. Thus Quadros failed in his bid to build a centre-left bloc in Congress out of elements of the PTB, the bossa nova group of the UDN, and the ala moça of the PSD. This became clear during discussions on agrarian reform.¹ While the commission headed by Milton Campos was still carrying out its work (to terminate only in 1962), Joffily, of the ala moça of the PSD, and the FPN, was presiding over a special commission of the Chamber of Deputies charged with collating the various agrarian reform bills that had been presented. The most vital issue in the area, and the one which attracted most public debate, was that of finding a legal formula under which land could be expropriated for distribution to poor peasants. Article 141 of the Constitution, which dealt with "expropriation in the social interest", referred forward to Article 147, paragraph 16, which set a condition which the financial situation of the government made draconian: "prior compensation, in cash", to the owners, "for the just value" of the good to be expropriated. The solution to the problem of financing the purchase of the land was therefore inextricably linked with two issues which were political dynamite. The first was the definition of just value (particularly in the common case of unproductive latifundia). The second was the need for constitutional reform, as an attractive option for the government itself, allowing for compensation through

1. The following section draws on Camargo, op.cit., pp.178 - 187

bonds maturing over a long period of time. Any modification to the constitution however required the assent of two thirds of the votes in Congress, and was politically inviable.

An alternative and less conflictive solution had been found by the governor of São Paulo, Carvalho Pinto, when he launched an agrarian reform in his own state. Fiscal resources were to be raised to finance compensation payments through the introduction of a land tax which was structured progressively to penalize unproductive land severely, at the rate of 2 per cent of its value. In the meantime, in early August Joffily presented another alternative, which emerged from the work of his commission, and also obviated the need for constitutional reform. Under this scheme, the just value of expropriable lands and the cost of compensation would be equivalent to the value previously registered by the owners for the purpose of payment of land tax, generally a substantial underestimation of market value. Quadros gave his official blessing to the Joffily formula, but found it blocked in Congress; on the one hand by Almino Alfonso of the PTB, who supported another project in order to "lay down a marker", although himself admitting that it was inviable; and on the other by a veto from the PSD commission which kept the bill from the floor of the house, despite the conciliatory attitude of the president of the party, Amaral Peixoto, and the widening gap between the ruralist bloc and those in the party more open to reform. There was thus no "centre-left" solution on this issue. Polarization had proceeded too far, as was shown when the national convention of the PTB opted for the more radical option of constitutional reform.¹ Taking into account the favourable response of the FPN to the profit remittances bill and the anti-trust law, currently being debated in Congress, it is clear that the PTB and the nationalist left were in some disarray at this time. In the sessions of Congress preceding the resignation of Quadros this became increasingly evident. The leading

1. Ibid.

representatives of the group, such as Oswaldo Lima Filho and Sergio Magalhães, members along with Almino of the FPN, joined the ala moça and bossa nova groups in defence of Quadros in a hostile and noisy Congress on the eve of the resignation.¹ Congress moved into outright opposition as a result of fears of a coup, heightened by the tempestuous governor of Guanabara; Lacerda, appearing on a national television programme, presented as evidence of the intentions of the President a verbal invitation made to himself by the Minister of Justice to subvert democratic institutions. It is important to stress the context in which the resignation was presented. The summoning by Congress of the Minister of Justice to answer to a congressional inquiry, combined with rumours that other inquiries involving members of the executive would be launched, strongly suggested the possibility of moves by the legislators to impeach the President.² In addition, to judge by the account given by Almino ... of the events following on the resignation, the leaders of the PTB and the PSD soon came to the conclusion that it represented an attempted coup:

"The resignation was a coup which was frustrated... He felt that the people would demand his return to power, allowing him to make his own conditions. I had a clear intuition of this truth as soon as the resignation was made public... I said so immediately in a speech delivered to the Chamber of Deputies. The resignation coup (was frustrated) by the agility with which democratic forces in the national Congress acted. In my speech, made in my position as leader of the PTB, I said at one point: "The resignation is accepted". The PSD deputy Capanema intervened immediately to remind me that juridically speaking resignation is a unilateral act of will, and that as a consequence it was not for us to accept it or reject it. Congress could only register it as a historical fact... And so we did".³

1. Ibid., p.182.

2. In the interview in O Pasquim (ft. 64), Quadros spoke of the strong pressures coming from this quarter, adding that in his letter of resignation he has spoken of 'terrible' rather than 'hidden' forces, because "they were never hidden". The full text of the letter of resignation sent to Congress is transcribed in Folha de São Paulo, 23 August 1981.

3. "Depoimento de Almino Affonso, Folha de São Paulo, 23 August 1981.

The final shift of the leaders of the PTB into a position of clear opposition is not explained alone by the ambiguity of the policy goals of the government, some of which were incompatible with the ideas of the nationalist left. In addition to the negative effects of liberal economic policies and the rapprochement with the IMF, or the attacks of the President on the Vargas model of labour organization, account must be taken of the manner in which the commitment of the President to a number of reformist or nationalist policy goals cut the ground from under the PTB. The leaders of the PTB saw Quadros appropriating a number of their major demands as his own.

*

To judge by the available evidence, therefore, and the logic of the situation, the resignation is best understood as governed by a political calculation which anticipated deposition by the military and/or impeachment by Congress. Whether Quadros had good grounds for such fears is irrelevant. The alternative hypothesis, dominant in the current literature, of a "bonapartist coup" engineered by the President, requires the existence of certain conditions which were not in fact present. Firstly, a constitutionally elected president in conflict with Congress would need to have concentrated in his own hands the power to control the military and the bureaucracy.¹ Quadros appears to have been deprived of such support, to judge by the evidence from: a) Tancredo Neves of poor communications between the President and the Armed Forces, corroborated by the recent admission of Admiral Heck that he and the other military ministers had absolutely no knowledge of Quadros' final move,² and b) the opposition he faced from nationalists in the Armed Forces, referred to in the previous chapter in connection with the exchange reform and the liberal economic policies adopted by the Treasury. Further support for this

1. See Karl Marx, "The Eighteenth Brumaire of Louis Bonaparte", Selected Works, (Progress Publishers, Moscow, 1977), Vol. 1.

2. "Depoimento do Ministro da Marinha", Folha de São Paulo, 23 August, 1981.

interpretation is given by evidence that the independent foreign policy was unpopular with the conservative military.¹ Finally, it appears that there was little active opposition from the United States to the Quadros government, despite the perplexity occasioned in official and diplomatic circles by the policy of neutralism. Reactions differed between official agencies, the business community, and the representatives of the CIA in Brazil. The Bureau of Inter-American Affairs within the State Department favoured the mild policy of taking the initiative to reactivate the mechanisms of external aid, while abstaining from exerting political pressure of any kind, on the grounds that

"no other state is so well qualified and able to emerge in the long term as a dominant power in the area. If Quadros wishes to follow a neutralist line, I do not believe that we should seek to dissuade him".²

As for the discontent of the business community with legislation restricting the activity of foreign capital, and with the hostility of the nationalist left, this only emerged in November 1961, well after the resignation, when the relevant legislation passed through Congress, to be given presidential approval in 1962.³ The only clear attitude of opposition to Quadros, based as it happened upon a mis-calculation of the forces which would emerge triumphant in the crisis following a resignation, came from the CIA representative in Brazil, whose telegrams to the State Department on the day of the resignation were couched in the following terms:

"We believe that he probably resigned in the expectation of provoking a strong popular reaction in favour of his return to office, with greater powers than his opponents (Fidel Castro resigned once with this in mind, and Peron more than once)... We believe that the next government will be conservative, because the Army will not stand for any more of this".⁴

-
1. Depoimento de Mello Franco", Folha de São Paulo, 23 August 1981.
 2. POF, JFK, Box 12, Brazil, 26/27 January, and 1 February, cited in Camargo, p.169.
 3. "Notes on Questions Concerning Brazil which Most Preoccupy US Opinions", Box 112. POF, JFK, and "Position Paper: The Climate for Private Investments in Brazil", March 27, 1962, Box 112, Goulart Visit, POF, JFK, quoted in Phyllis Parker, pp. 9-10.
 4. Cited, Folha de São Paulo, 23 August 1981.

2.3. The labour front: from class conciliation to a strategy of dissensus

Where urban social movements in Brazil are concerned, there is agreement on two points. The radicalization of the labour movement is dated from 1962, when the proliferation of seriously disruptive strikes was combined with demands of a nationalist and reformist nature from the leadership. Secondly, the mobilization of the union movement around nationalist goals is related back to the last years of the Vargas cycle, when policy goals of a conflictive nature relating to the extension and scope of participation by foreign capital were similarly used as a basis for mobilization.¹ In Chapter II we saw how in the same period the first manifestation of radical populism in Brazilian history was characterized by economic nationalism as a mobilizing ideology, and governmental initiatives, if only short-lived, of a redistributive nature.

In the early 1960s though, the difference was that the priority attached by labour leaders to the campaign for structural reforms widened the range of already existing conflicts between different factions of the political elite. Agrarian reform, the vote for illiterates, modifications to the 1946 Constitution, and the campaign to limit the privileges enjoyed by foreign capital were all issues which led their proponents to question the legitimacy of the ruling party coalition. To judge by the proposals being put forward on the labour front and the frequent attacks by some PTB leaders on the conservatism of the majority party, it is possible to speak of a new mode of radical populism. As Erickson points out, the new orientation given to the union movement by labour leaders reflected the adoption of a strategy of dissensus. Thus he argues, on the basis of an analysis of 17 major strikes, some political and some arising out of economic demands but having decisive political impact, that

"Under the strikes under study here, the labor leaders exercised power over President Goulart by threatening to withdraw support

1. This section draws on Kenneth Erickson, The Brazilian Corporative State op.cit., and Martins Rodrigues, Conflito Industrial e Sindicalismo no Brasil (São Paulo, DIFEL, 1966); Francisco Weffort, "Sindicatos e Política", (Tesis de livre docência, University of São Paulo, 1972.)

which he desperately needed, as well as to dislodge other elements from the coalition upon which his government rested. The strike leaders were practising dissensus politics".¹

The pattern of action described by Erickson proved more effective after September 1961, when Goulart assumed the dual functions of President of the Republic and leader of the labour movement, relying for support upon a reactivation of the PSD-PTB coalition. Nevertheless, it can be shown that this pattern of action has its roots in the 1959-1960 period. As Piven and Cloward suggest, dissensus politics flourishes most when a coalition has been undermined by disruption in the past:

"Tactics to provoke dissensus are probably most effective at times when widespread social or economic change has already undermined a majority coalition, making it vulnerable to attack. Since the leaders of the coalition will tend to resist realignments of power and policy as long as possible, the disrupters must expose underlying political tensions being produced by changing conditions. Then, confronted with actual or threatened electoral realignments, majority leaders will make concessions in an attempt to restore a weakening coalition or reorganize a shattered one".²

By the end of 1960 the basic symptoms of disruption were in evidence. The working class was increasingly aware of the negative impact of inflation upon real wages, labour leaders were more combative, and the presidential elections had produced a president backed by the united forces of the opposition, and a vice-president from the PTB, the heir of Vargas, identified with popular movements, and a target for their pressure. At the same time, the PSD, still the majority party in Congress, found itself suddenly excluded from the leading executive posts.

The shifts observed on the labour front in the last years of the Kubitschek period, leading to the growing politicization of economic issues in 1962 and 1963, were produced by a convergence of three factors. First, the reactivation of economic nationalism, which had been instrumental in mobilizing the labour

1. Erickson, *Brazilian Corporative State*, pp. 97-8. For a definition of dissensus politics, see F. Piven, and R. Cloward, "Dissensus Politics", New Republic, 20 April 1968.

2. in Erickson, op.cit., p.22.

organizations throughout the episodes associated with the break with the IMF. Second, the feedback effects of inflation were reflected in the growing difficulty experienced by the ruling coalition in keeping strikes over economic grievances within tolerable limits. Thirdly, legal innovations which led to the opening of new channels of institutional access through the corporatist structure for representatives of the labour movement gave them positions of power hitherto unknown. The net impact of these factors was to bring about a double redistribution of political resources, strengthening the union leaders within the national political system, and strengthening the nationalist left within the union movement. Although these three factors converged to produce the same result, they had different origins and significance: the first two may be approached as feedback effects of the policy solutions adopted in 1959, while the third represents a success for the expansionist policies of the PTB.

The revival of economic nationalism must be traced back to 1959. It was in sharp contrast to the actual economic policies being implemented, and the model of associated development that was taking place. Even so, the episodes surrounding the abandonment of the stabilization plan and the break with the IMF constituted as we saw in Chapter IV, the high point of the consensus politics which characterized the years of confidence. The tactics employed by the government both helped to subdue the differences emerging between employers and workers in the face of increasing financial difficulties, and to reinforce the unity of the majority bloc in Congress, and of the party alliance led by the PSD. The degree of cohesion achieved is best appreciated in the behaviour of the extreme left of the coalition, the FPN, which added the following proposal to its offensive against foreign capital:

"to postpone the discussion of the IMF letter until deputy José Maria Alkimim absent from Rio for unavoidable personal reasons, can participate in it".¹

1. O Estado de São Paulo, 11 July 1959.

We should note not only the sudden conversion by the nationalist left of one of the leaders of the PSD in Minas into defender of the common cause - "resistance to the intolerable demands of the IMF" - but also the effects in the medium term. The nationalist rhetoric of the leaders of the PSD, instrumental in mobilizing the union movement, proved a threat to the hegemonic role of the party within the alliance. It set the standards and values against which future negotiations with the IMF and any concessions to the demands of foreign creditors would be judged, and contributed to heighten the consciousness of the radical sectors of the PTB, the newly emerging union leaders, and the nationalist left as a whole to the contradiction between the immediate policy goals claimed by the government, such as the return to expansionist policies as a necessary part of autonomous development, and the pattern of accumulation, (and the economic advisers) adopted by Kubitschek.

The moderate pressure for greater coherence exerted, as we have seen, by the FPN in July 1959, developed into an open attack by Brizola upon the leader of the PSD. In October 1960, before the victory of Quadros and a number of opposition candidates for state governors had been announced, Brizola was blaming Kubitschek for the double defeat of the candidate of the alliance for the presidency, and the forces of varguismo in Rio Grande do Sul. He was prepared to break with the federal government, and lead a crusade against the outgoing President, whose "developmentalist government was no more than a bluff".¹

Even making allowances for Brizola's extravagant style, criticism of the model of development being pursued was not restricted to Brizola himself, or even to what came to be known as the grupo compacto within the PTB, the radical nationalist wing of the party. It came from the whole spectrum of the nationalist left, taking in the newly emerging union leaders from the ranks of the PCB and other organizations. It was also shared by sectors of

1. Ibid., 6 October 1960.

the military whose conception of their own role was that they were "contemporaries of another battle", that of autonomous development. We can thus speak of a typical pattern of reactions which was to recur in the early 1960s in response to the new course imposed upon economic policy to Quadros and Goulart. What concerns us here is the internal dynamic of the PTB and its relationship with the union movement.

The links between the more radical representatives of the labour movement and the nationalists in Congress had been forged around the programme and activities of the FPN, and more precisely around the grupo compacto. Hence the growing prestige with the labour organizations dominated by the nationalist left of politicians from that group, particularly Almino Affonso, the Amazonian-born deputy for São Paulo who became leader of the PTB in the federal chamber in 1961-2, (and was to become the Minister of Labour at the time of the implementation of the Three Year Plan), and Brizola, who was elected to the Chamber in 1962 from Guanabara, with 300,000 votes to his credit. Brizola's appeal as a popular leader was derived in large part from his record as governor of the state of Rio Grande do Sul from 1958 to 1962, including the expropriation of a subsidiary of IIT, the first moves to redistribute land to peasants, and the organization of civilian and military resistance in the state to the attempts of the opposition to block the installation in the presidency of Goulart in 1961. There were substantial differences between Brizola and Almino Afonso: each however, saw himself as a potential leader of the PTB, to the left not only of the traditional leadership, but also of Goulart himself, and placed himself on the side of new developments within the union movement.

In short, the performance of the PSD began to be judged in the light of a set of demands associated with an ideology of economic nationalism, and put forward by the individuals and groups we have discussed.¹ This was the basis for future vetoes on efforts to reach a conciliatory understanding with

1. Jurema, pp. 57-66.

foreign creditors.¹

The differences between Brizola and Almino, reflected the contrasting strains within the offensive of the nationalist left. Brizola's discourse and political practice demonstrated an enormous power to mobilize, but lacked ideological parameters capable of providing a coherent critical vision of the political system left behind by Vargas. In this sense he was a typical radical populist leader. Almino on the other hand seemed to display a greater capacity for political discipline; in addition, it was his critical attitude to the existing corporatist structures and the traditional clientelistic practices of the PTB which lay behind his congressional action and his commitment to a union structure operating in autonomy, free of state control. As we shall see, this was to place him in a dilemma once he became Minister of Labour.² Beyond these differences, however, was a denominator common to the two politicians and to the emerging leaders of the PTB: a commitment to a departure from the consensus politics which had marked the contemporizing attitude of the PTB leadership in the late 1950s, in favour of a practice of dissensus - the hallmark of working class politics in the early 1960s.

*

The root causes of the gradual ascendancy of the nationalist left in the labour movement lie not in political developments within the PTB, but in the internal dynamics of the union movement. 1960 marks a turning point in several respects. In that year a dissident group of union leaders proved able to organize a number of strikes which seriously disrupted economic activity, despite the hostility of the pelegos. At the same time, the enhanced power of the new union leaders, arising out of the discontent of the rank and file as real wages declined, was countered by the presence of the military as mediators in labour conflicts, and hence key decision-makers.

1. See Folha de São Paulo, 23 August 1981.

2. Interview with Almino Afonso, 18-19 December 1978; Erickson, Brazilian Corporative State, pp. 77-82.

This marked the first entry of the military into an area hitherto reserved for professional politicians.

The "parity strike" of November 1960 marks the beginning of a phase characterized by Erickson as "one of the most intensive strike activity" since the 1930s. At the same time, to judge by its impact on the working of the rules underlying the social compact, it also represented a parting of the ways between union leaders on the one hand, and Congress and the PSD on the other. The initial motive for the three-day strike by rail, port, and maritime workers which paralysed activity in those sectors was the granting by Congress of a wage increase to the military, with no corresponding increase in civil service pay levels in accordance with which the workers in the public industries concerned were paid.¹ The initial aloofness of Kubtschek, and the threat from the Minister of Labour to put down the strike by force, did not have the desired effect, as the press blamed Congress for the deadlock. With the strike leaders determined to continue their action, Goulart, recently re-elected as Vice-President, refrained from intervening as a conciliator. This reflected a realistic political calculation taking account of the ambiguity of his own position in view of the changing nature and scope of militant activity, and the weakness of the PSD after its election defeat. The strike escaped the control of traditional union leaders, forcing Goulart to admit his impotence, and creating the prospect that an attempt to intervene would fail and damage his prestige with the workers.² Goulart probably calculated, in any case, that the hybrid election result, bringing Quadros and himself to the presidency and vice-presidency respectively, might allow the PTB to expand, and Goulart himself to increase his power, in the wake of the defeat of the traditional party alliance.

Military intervention began on the second day of the strike with the

1. See contemporary press references in Erickson, op.cit., pp. 103-4.

2. Ibid.

provision of drivers to minimize its effects. However, when telecommunications workers in Rio walked out and the city was threatened with isolation, the military presence became more overtly political. Facing the prospect of the establishment of military control over the former capital, and summoned to a meeting there, Kubitschek responded by requesting Congress to approve a state of siege. The crisis was resolved when Congress reacted to this threat to its powers by granting the wage increases sought by the strikers and thus ending the strike.

These events reflected the redistribution of political resources within the union movement. The declaration put out by the traditional leadership during the strike that "despite the justice of their demands" they considered the strike illegal and "pledged their support to the President" had no impact.¹ The victory of the strike movement consolidated the position of the radical leaders involved, and strengthened the opposition of these and like-minded militants in other unions to the leaders of the trade union movement. The result was the launching of the Pacto de Ação Conjunta (PUA), a body coordinating the action of the unions directly involved in the strike, and others which shared their general orientation. Despite its ad hoc character, the PUA reflected the creation of links between union representatives cutting across the limits imposed by the corporatist system. Legal dispositions in force since the 1930s prevented the creation of a single central national trade union organization in Brazil, allowing only the formation of federations and confederations of unions in individual sectors. Thus Goulart's opposition would be able to brand attempts to form one as illegal and subversive, in the name of the restrictive legislation introduced by Vargas himself and retained in 1946 despite the liberalism of the Constituent Assembly.

In a longer term perspective, the parity strike of 1960 inaugurated a new pattern of relations between the union movement and the professional

1. Diário Carioca, 9 November 1960, cited in Erickson, p.104.

politicians at national level who derived their power from it. Labour leaders were now able to exercise greater influence, due to their willingness to use their control over their union bases to obtain economic and political advances through strike action. As a result, though, as we have seen, the nature of the decision-making process was affected by changing relationships between four major political actors: the executive, Congress, the trade union movement, and the military.

An additional point should be made, as it bears upon the feedback effects of inflation upon the politicization of issues of economic policy. The political uncertainty arising out of the victories of Quadros and Goulart gave union leaders greater opportunities to challenge populist controls through strike action,¹ but to judge by the available evidence their increased power did not arise from changes in the structure of the union movement leading to the establishment of solid links between the leaders and their bases. Levels of unionization were in any case low, although absolute numbers of union members rose in the period. More significantly, it appears that the responsiveness of the rank and file, and hence the success of strikes, depended upon two "autonomous" variables which makes it possible to describe the political mobilization of workers as reactive throughout the period.

The first, as the most perceptive union leaders realized, was the level of real wages at the time of the strike call. Nine out of ten successful strikes occurred at low points in the cycle of erosion of real wages through inflation, while all unsuccessful strikes occurred shortly after wages had been readjusted to account for inflation. The willingness of the rank and file to respond thus depended upon fluctuations in the purchasing power of wages. The control exercised by labour leaders over the rank and file was therefore considerably more limited than it might have been in circumstances

1. Erickson, pp.97-130, is the source for what follows.

historically favourable to the emergence of an autonomous class.

The second variable was the attitude taken by the military to the strike, and reflects the prudence of the political calculations of the leadership. Even political strikes could succeed if the military adopted a neutral or benevolent attitude, as was often the case until the beginning of 1963.¹

In view of these circumstances, and the commitment of the PCB in 1960 to a broad front strategy and an "alliance with progressive sectors of the national bourgeoisie",² there can be few illusions regarding the capacity of the working class to subvert democratic institutions, or its disposition to install a syndicalist republic with Goulart as leader. Yet this was the spectre that was raised continually by the civilian and military opposition after the resignation of Quadros, in part for internal consumption and in part to win the sympathies of U.S. ambassador Lincoln Gordon.³ In fact the labour movement was simply venturing beyond the limits set by the policy of class conciliation to which the populist politicians were committed, forcing them to make increasing concessions to maintain their influence and thus retain their bargaining power with more conservative sectors of the political elite.

One of the factors contributing to this was the attainment by labour leaders of key decision-making posts in the social security system, which by 1960 gave them access to a major source of patronage.⁴ The Lei Orgânica de Previdência Social (Organic Law on Social Security), approved by Congress in August 1960, gave labour leaders one third of the places on the executive councils of all of the social security institutes. In addition, the presidency

1. Erickson, as above and pp. 177-85.

2. Novos Rumos, 4 August 1960.

3. Phyllis Parker, Brazil and the Quiet Intervention, University of Texas Press, 1979, pp. 10-11.

4. Erickson, pp. 62-3.

of the councils was to rotate between the representatives of labour, employers, and the government. An indication of the clientelistic resources thus made available to labour leaders is that the system employed 100,000 of a total of 700,000 federal civil servants, and handled a total budget larger than that of any state except São Paulo.¹

One final point must be made before we go on to consider the conjunctures of uncertainty following upon Quadros' resignation. Although we have argued that there were limits to the development of an autonomous labour movement, there is not denying that it played a destabilizing role. This was not only because of the nature of its demands and the resulting stresses on the social compact, but also because it took part in a broader movement of mounting criticism of the limited scope of representative democracy in Brazil. The threat which it represented for conservative sectors of the elite was increased by the simultaneous emergence of other organized social movements, among students and peasants, and, in the armed forces, among sergeants and sailors. These groups too practised a strategy of dissensus.²

3. The vicissitudes of a new strategy of consensus: the parliamentarist interlude, September 1961 - January 1963.

3.1 The Adoption of parliamentarism

In late August 1961 the military ministers vetoed Goulart's accession to the presidency thus creating a sweeping crisis. The effect was the rapid establishment of a consensus among antagonistic sectors of the political elite around an institutional solution designed to strengthen civil power.³ Active resistance to the attempted coup came from sectors identified with the nationalist left - from Brizola and General Machado Lopes in Rio Grande do

1. Ibid.

2. Flynn, pp. 226-298.

3. Manifesto dos Ministros Militares, O Estado de São Paulo, 31 August 1961.

Sul, and the labour organizations, whose leaders co-ordinated a general strike in support of Goulart.¹ However, the institutional solution which won the discreet approval of the Chief of the High Command, Cordeiro de Farias, and made it possible to circumvent military opposition, was worked out in three days between the leaders of the three major parties. On this point the accounts of Mello Franco (UDN), Tancredo Neves (PSD) and Almino Affonso (PTB) are in agreement.² The constitutional amendment which established the parliamentary regime in Brazil (Additional Act of 2 September 1961) was drafted hurriedly by representatives of the three main parties, after Mello Franco had guaranteed that it was acceptable to Cordeiro de Farias, and Santiago Dantas had secured the assent of Goulart.

The new form of regime succeeded in averting an immediate coup, but failed to produce an environment in which the decision-making process could function smoothly. Politicians who had adopted it as an emergency expedient felt no commitment to its subsequent consolidation. In Melo Franco's words it was "still-born", a "Noah's Ark built to flee the flood".³ Goulart and the nationalist left regarded it as merely provisional, all the more so when other key political sectors proved reluctant to accept the new rules of the game. With the significant exceptions of Dantas and Mello Franco, the architects of the Additional Act and the 'legalists' among the military retained a

1. See Erickson, pp. 104-7.

2. For the accounts of Tancredo Neves, Melo Franco, and Almino Afonso, see "A experiência parlamentarista ou a importância de um fracasso", in Cultura, supplement to O Estado de São Paulo, 13 September 1981. The authors of the Additional Act were Mello Franco, Paulo Sarasate, Adauto Lucio Cardoso (UDN), Nestor Duarte (PSD), Nelson Carneiro (PSD), and Santiago Dantas (PTB). They revised and reformulated a draft originally prepared by Raul Pila, which had twice come before a congressional committee headed by Mello Franco. The initiative behind the negotiations came according to Mello Franco and Neves from Ranieri Mazzili and Ernesto Geisel, respectively president of the Chamber of Deputies and Head of the Military Household.

3. Ibid.

preference for the old regime.¹ Furthermore, the majority of congressmen made surprisingly little effort to make the system work during the nine month period up to June 1962 in which government was in the hands of Tancredo Neves and the "national unity cabinet": it was only after the successive deadlocks in the wake of the fall of the Neves cabinet that a clearer perception was gained of the measure in which the powers of Congress had been strengthened and those of the executive reduced.² Finally, the parliamentary system was actively and systematically undermined by the leading contenders for the presidency, Kubitschek for the PSD, and governors Lacerda and Magalhães Pinto, each seeking the UDN nomination.³ The pressures on President and Congress for the restoration of presidentialism were such that the electoral calculations of the leaders of the PSD and in some cases of the UDN and the expansionist goals of the PTB converged to prevent any immediate process of institutional normalization.⁴ Further opposition to the new system came from the state governors, whatever their party affiliation, as the Additional Act failed to specify their attributes vis-a-vis the state legislative assemblies. It was juridically possible to make the federal system compatible with the new regime, but this was politically impractical in the short term. The full implementation of a parliamentary system at state level would place severe restrictions upon state executives, and disrupt the systems of local alliances and the electoral machinery upon which their power rested.⁵

These obstacles to the consolidation of a parliamentary system underlie

1. Ibid.

2. Ibid.

3. Tancredo Neves (ibid) reports Kubitschek's admission, when in exile, that he put aggressively to Goulart that "he wanted to be President again". For pressures from the UDN, see Benevides, A UDN e o Udenismo, pp. 122-3.

4. Accounts of MelloFranco and Neves, in Cultura, 13 Sept. 1981.

5. See Benevides, op.cit., and especially "A Declaração de Araxá", from Primeira Conferência de Governadores, Folha da Manhã, 12 June 1962.

the extreme political instability of the period from September 1961 to January 1963. In the circumstances, the political constraints described in the previous chapter in relation to the implementation of the stabilization policies proposed by the Tancredo Neves cabinet were exacerbated by discontinuities and delays in the decision-making process. This was reflected in the brief duration of the successive cabinets of Tancredo Neves (290 days), Brochado de Rocha (62 days), and Hermes Lima (137 days). The energies of the politicians were absorbed not by debates over the correct economic strategy, but by the related issues of Goulart's bid to recover full presidential powers and the timing and scope of the basic reforms, particularly agrarian reform.

The chronic instability of the parliamentary regime was most sharply felt in three successive deadlocks between executive and legislature, during the year of 1962. They provide evidence of two significant shifts. Firstly, the union movement was mobilized with some success to influence the course of events in favour of the executive, and secondly, nuclei of civil opposition began to emerge, although their impact was at first attenuated by the stabilizing influence of the civil and military 'centre'. We shall analyse these successive deadlocks in an attempt to throw further light upon the decreasing capacity to govern of the dominant PSD-PTB coalition, in particular during the period of the "national unity cabinet", (January - June 1962) and erratic pattern of governmental initiatives illustrated in Goulart's sudden abandonment of the strategy of consensus initially adopted, in favour of a reformist offensive more consistent with the political strategy of the radical nationalist left. We examine also the emergence of a military 'centre' acting as a moderating power in conflicts between executive and legislature, and the parallel decline in the weight of party allegiance as a criterion determining the action of politicians seeking to provide a stabilizing centre in a context of ideological polarization.

3.2 Polarization under the Unity Cabinet.

The ideological and political polarization which took place during the succession crisis of August-September 1961 had lasting effects which explain the shifting fortunes of the national unity cabinet. It was brought together by Tancredo Neves, who was given a free hand by the President, and was composed of a PSD majority, with minority PTB and UDN participation.

The first manifestation of political polarization was the formation of a rightist parliamentary front, bringing together members of the UDN, the PSD, and other smaller parties (PTN, PSP, and PRP). According to its statutes, the new group, Ação Democrática Parlamentar (Democratic Parliamentary Action), was intended from the start as a counterweight to the FPN, in defense of the following principles: the "survival of the democratic republic", the "division of the powers of state in order to prevent one power abusing its attributes to the detriment of others", "the struggle against golpismo and combat against leftism", and the defence of private initiative and the principle of continental integration.¹ Again, to judge from the composition of its directorate, the official launching of the ADP in October 1961 marked the final disintegration of the majority bloc in Congress which had supported Kubitschek,² despite the fact that at cabinet level the PSD-PTB alliance was reconstituted on terms which gave the PSD an even greater share than it had enjoyed previously, and that at Goulart's insistence, according to Tancredo Neves.

The succession crisis also hastened the loss of efficacy to which the dimension of control in populism was subject. The labour organizations dominated by the nationalist left, along with Brizola and the FPN, added to their credit

-
1. Although the ADP was being formed at the end of the Quadros government, it was not launched officially until the early months of the Goulart government. See O Estado de São Paulo 21 July 1961, and Jornal do Brasil, 22 Oct. 1961.
 2. The provisional directorate reflected the proportional weight of the parties involved. It was Raul Pila (Partido Libertador), Munhoz da Rocha (PR), Hamilton Prado (PTN), Horacio Lafer (PSD), Arruda Camara (PDC), João Veiga (PTB), and Herbert Levy (UDN), with general secretary Raimundo Padilha (UDN), and president João Mendes (UDN). See Jornal do Brasil, 22 Oct. 1961.

with Goulart from the fact that they had led popular resistance to the coup. In return, Goulart promptly intervened personally on behalf of the nationalist left slate in elections in one of the most powerful inter-union bodies, the CNTI (National Confederation of Workers in Industry) in December 1961. This confirmed the dominant position of the radical nationalists in the labour movement, and weakened the ability of Goulart and his labour adviser Crockatt de Sá to use the classic methods of control to prevent strikes or minimize their effects upon economic activity and the political system.¹

A third effect of the succession crisis was that it brought the conservative parties closer to each other again within the executive (at cabinet level) as well as within Congress. By its role in the process of bargaining which brought Goulart to power the UDN was able to assure itself of representation in the Neves cabinet. The harmony which resulted at cabinet level, and which Jurema notes, was not however the result of any attempt to adopt policies favoured by the UDN. On the contrary, the two UDN ministers, Gabriel Passos and Virgílio Távora, were to the left of the official line of the party.² They entered a tactical alliance in order to secure moderate reforms on the agrarian front, in foreign policy, and in legislation over foreign capital, and therefore hardly represented the dominant forces in the UDN who had also participated in the resolution of the crisis.

These realignments in union and party politics illustrate the extent to which the disruption of the social compact had proceeded in the first months of Goulart's government. They also explain the vulnerability of the Neves' cabinet, whose policy goals of "stability, development, and the extension of social justice to the rural dweller" mark it as centre-left in orientation.³

1. See Erickson, pp. 104-7, for a detailed account of the means used by Goulart and Crockatt de Sá to exclude the pelegos at the CNTI congress.

2. See Benevides, pp. 122-3.

3. Tancredo Neves, speech in Chamber of Deputies, Jornal do Brasil, 29 Sept 1961

The stance was compatible with Goulart's own, for despite his commitment, expressed in his first presidential address, to basic reforms, he pledged himself also to co-operate with Congress and respect the 1946 constitution.¹

It was difficult, as we have seen, in the previous chapter, to pursue the twin goals of stability and development in the face of increasing difficulties in financing central government current and investment expenditure. An additional constraint on Neves' policies with regard to the labour movement was derived from the suspicion with which the nationalist left viewed the Treasury Minister Moreira Sales, the banker who had concluded successful negotiations with the IMF during the Quadros government. The choice of Sales and the continuation of Roberto Campos as ambassador in Washington, approved by Goulart on the grounds of his high credentials in international financial circles, reflect his continued commitment to the conciliatory strategy defined by the Prime Minister.²

The initiatives taken in the areas of agrarian and foreign policy illustrate the moderately reformist orientation of the national unity cabinet. The executive produced two draft bills providing for agrarian reform which could quite easily be made compatible. They were both intended to avoid the need for constitutional reform, but were considerably more progressive than the bills that had reached Congress in the past. The first emerged from the commission headed by Milton Campos, while the second came from the Ministry of Agriculture.³ However Goulart decided that neither should be put before Congress, as the elections of October 1962 might bring about a shift in the composition of Congress which favoured the forces of reform. His decision also reflected his commitment, as president of the PTB, to the more radical

1. Correio da Manhã, 19 Sept. 1961 and 7 Sept. 1961.

2. Tancredo Neves, in Cultura, 13 Sept. 1981, and Roberto Campos, interview reported in Phyllis Parker, The Quiet Intervention, pp. 8-9.

3. See Camargo, "A Questão Agraria", for a detailed analysis of the two executive projects.

strategy adopted by that party: constitutional reform to provide for compensation in public debt bonds for expropriated property.

Following the pattern established under Quadros, the foreign policy implemented by Foreign Affairs minister Santiago Dantas sought to combine principles which appeared incompatible to the civil and military right. These were the continued adherence to the commitments undertaken by Brazil in the Rio de Janeiro, Santiago, and Bogotá agreements on the defense of representative democracy in the signatory states, and the search for new trade partners in the socialist bloc, and defence of Cuba's right to self-determination. The new Foreign Affairs minister found himself operating in a national and international environment far less stable than his predecessor had enjoyed. His attendance at the OAS meeting at Punta del Este in January 1962 denied Dean Rusk Brazil's support for the application of mandatory sanctions against Cuba.¹ Dantas mounted a powerful attack on the position of the U.S. Secretary of State, refused to accept the expulsion of Cuba from the OAS, and defended the alternative position of "co-existing recognition", arguing that only negative obligations should be demanded of Cuba, such as "refusal to enter into an armed pact with the Soviet bloc, discontinuation of the practice of demoralization of governments in Latin America, subversive activities, and propaganda".²

On the question of foreign policy the right in general and the ADP in particular proved far less flexible than the U.S. ambassador Lincoln Gordon and Deputy Assistant Secretary Goodwin, whose political calculations were far more sophisticated. Even before the conference of American states took place in January 1962 the ADP had sent about collecting signatures to force a Congressional censure of Dantas.³ The motion of censure was eventually

1. Cited in Parker, pp. 12-13, on the basis of interview with Campos, and Lyndon Johnson, as well as John Kennedy Archives.

2. Ibid.

3. O Estado de São Paulo, 25 Nov 1961.

passed on 17 February, and the foreign minister was summoned a second time to explain government policy on the position to be adopted over Cuba, Brazil's support for China's entry to the United Nations, and backing for Angola, since in the eyes of the leaders of the ADP this meant "backing the rebels" aided by 'Soviet invaders'.¹ After a brilliant defence of the political and juridical compatibility of the principles underlying his policies, Dantas concluded in terms which explain the attacks to which he was subsequently subjected from the right:

"because it is of the essence of democracy that it results from the popular will, which cannot be replaced by the will of any other body, any other entity, any other group of nations".²

Gordon and Goodwin sought before and during the Conference of Punta del Este to persuade Rusk to seek for no more than a policy of 'moral isolation' of Cuba; their views reflected their sensitivity to the strategic position of Brazil and to the internal political situation there. They argued that a) Goulart's policy, like that of Quadros before, was far more sympathetic to the United States than to the Socialist bloc, b) "the political situation in Brazil is extremely precarious... we have no other choice but to work to strengthen this government since there appears no viable alternative", c) the worst outcome would be for Brazil to vote with the minority, and the majority to be made up of the smaller and less populous countries, and d) "this would place very heavy strain on an already weak government .. and stimulate a leftist campaign for the denunciation of the whole inter-American structure".³ The attitude of the U.S. Ambassador to Goulart was not one of

1. Dantas had been called before Congress for the same reason shortly after the cabinet had taken office. For his response on that occasion and his reply to the motion of censure, see Dantas, *Discurso na Câmara de Deputados*, 13 Sept 1961, and *Moção de Censura, Discurso na Câmara de Deputados* 29 May 1962, in Política Externa Independente, Civilização Brasileira No.2., pp. 179-193.

2. Ibid., p.191.

3. Cited in Parker, pp. 12-13. See there for detailed sources.

open hostility. If not co-operative, he was at least more positive than he would be in 1963. This was consistent with the attitude adopted by the U.S. at the time of Goulart's accession to power, which was officially one of giving the new government "the benefit of the doubt".¹

Internally, though, the opposition of the right was strengthened by the fact that Dantas, unlike his predecessor, converted his foreign policy into a popular issue, and an object of public debate in the media and in the unions, turning his renowned oratorical gifts to the purpose.² As with economic policy a year later, the extension of the debate away from exclusive official circles to the sectors hitherto excluded from the decision-making system raised fears on the right of a growing 'popular menace'.

To judge by the initiatives taken by the ADP in Congress, the terms of Lacerda's attacks on the new cabinet, and upon Goulart, and the evidence adduced by Admiral Heck to justify his claim to the new U.S. ambassador that a conspiracy was under way at the end of 1961,³ agrarian reform per se was not the main target of these sectors at this time. The government initiatives which brought the most radical sectors of civil and military opposition together were the orientation given to foreign policy, and Goulart's support for the nationalist left in the union movement.

The UDN met on January 29 and 30, 1962, to decide its attitude to the policies being put forward by the government. Lacerda's diagnosis of the future of the party characterized his flair for disruption and his ability

1. Cited in Parker.

2. See account of Almino Affonso in Cultura, 13 Sept. 1981; corroborated in interviews conducted by the author with advisers to Dantas, José Gregori, 3 Jan. 1980, and Marcílio Marques Moreira, 7 Dec. 1980/1981.

3. Members of the ADP were officially committed to agrarian reform and the modification of the 1946 constitution. It named a commission to examine the question of agrarian reform, and another to study profit remittance. See O Estado de São Paulo, 27 July 1961, and Jornal do Brasil, 22 Oct. 1961. IBAD also sponsored an agrarian reform project somewhat more radical than its extensive contacts with ADP and with the sectors involved in the deposition of Goulart might suggest. See Camargo, "A Questão Agrária", pp. 193-7, and René Dreyfuss, R. A Conquista do Estado, (Rio de Janeiro, Vozes, 1981).

to act as a precipitating agent, behind the backs of the moderate UDN politicians incorporated into the decision-making system. Referring to the approaching October elections, he stated:

"As for this year's elections, I do not believe that the UDN will grow, I believe it will decline, if things go on as they are - and if there are elections. We should stop this practice of serving as chickens to hatch pheasants' eggs... because the President has been promoting the handing over of the Confederation (CNTI) to the communists, whose election was a farce. The era of the red menace has begun".

With reference to the party political system, he declared with some justification

"I accept the idea that these and other ideas (strikes and agitation expected in February and March) should be debated at a UDN meeting. But, frankly, which UDN? There are several, as there are several PSDs, several PTBs, and several PDCs".

In an attack which lashed out at the 'indefensible cabinet' of Tancredo Neves, parliamentarism, and the "inertia, irresponsibility, and flexibility" of Congress, he concluded as follows

"Military dictatorship or Popular Republic, that is the dilemma which the country will be facing in a few months' time; the possible solution demands military guarantees, the formation of a group in Congress willing to support such a government, and the mobilization of public opinion to defend it against those whose interests are crossed, and will rise against it".¹

The reactions of the organized sectors of congressional and extra-congressional opposition represented a vote of no confidence in Goulart and the national unity cabinet.

The approach of the October elections hastened the process of consolidation of civil opposition to Goulart around two institutes, IBAD and IPES. They brought together a new system of alliances between técnicos, businessmen, and professional politicians, who provided the bases of legitimation for the post-1964 regime, and traced the first outlines of the project of capitalist development. IBAD (the Brazilian Institute for Democratic Action) was a channel for national and foreign resources financing opposition candidates,

1. Interview with Lacerda, reported in O Estado de São Paulo. 30 Jan. 1962.

while IPES (the Institute of Social Research and Studies) became its intellectual centre, acting as the equivalent of a shadow cabinet. IPES also brought together opposition técnicos and businessmen in a system of alliances outside the official National Confederation of Industries, which remained allied with Goulart until February 1964. Their financial and political support came in this period from the most advanced sectors of paulista industry.¹

3.3 Goulart opts for radicalization: the institutional deadlock and the strengthening of military power.

By this time, the initiatives taken by Goulart, under pressure in view of his double responsibility as head of state and leader of the labour movement, increased the vulnerability of the party political coalition which had supported his installation as President. On 1 May 1962, speaking to the workers of Volta Redonda, he committed himself to the radical nationalist strategy;² the policy goals announced marked the start of a reformist offensive designed to exert direct pressure upon Congress. This course of action was bound to discredit the Neves cabinet. Goulart called for the carrying out of a plebiscite on the restoration of presidentialism, to coincide with the October elections, a constitutional reform to make possible the payment of compensation for expropriated land in public debt bonds, and the granting by Congress of "constituent powers" to the next Congress, as insufficient time remained in the present session for the necessary legislation. This appeared to be an endorsement of the strategy formulated by Brizola in April 1962.³ Brizola had argued that Congress in its present form and the parliamentary system constituted the principle obstacles to the achievement of the basic reforms,

-
1. The São Paulo Federation of Industrialists (FIESP), however, broke with Goulart only in December 1963.
 2. Correio da Manhã, 3 April 1962.
 3. Brizola, Anais da Câmara dos Deputados, 28 and 29 June 1962, cited in Carone, pp. 202-5, from where the following details are taken.

and of agrarian reform in particular, and that the programme put forward by Neves was not only "innocuous", but lacked "autonomy vis-a-vis the guidelines laid down by the Alliance for Progress", itself "an instrument of neo-colonialist policy". The agrarian, fiscal, and urban reforms and the new electoral code should be brought about by a return to presidentialism and the renovation of the legislature in the October elections, as the last option for carrying out the reforms peacefully. The constitutional reform should include, along with the modifications concerning compensation for expropriation, the elimination of the requirement for a two thirds majority for modifications to the 1946 Constitution.

In response Neves felt obliged to dismiss his cabinet, the official reason given was a legal one: it fulfilled the requirement, a hangover from the presidential system, that candidates for election should leave executive positions ninety days before the elections. In fact Congress refused Neves when he sought the elimination of this constitutional provision on the grounds that it was now an anomaly.¹ This refusal was a disguised veto on the policies of the cabinet, resulting from a coalition between the UDN and the conservative sectors of the PSD, whose rural bases were being strongly penetrated by lacerdismo. The political bases of both major conservative parties looked with hostility upon the initiatives of the cabinet in the areas of agrarian and foreign policy.

From this point on, relations between the executive and the legislature entered a phase of chronic crisis. The rejection by Congress of Dantas when Goulart put his name forward a few days later did not itself represent an impasse, for the President played a somewhat ambiguous role in the episode. The speech made in Congress by Almino Alfonso suggested that the left was solidly behind Dantas,² and his recent account confirms contemporary newspaper

1. Mello Franco and Neves, in Cultura, 13 Sept. 1981.

2. Almino Alfonso, speech in Camara de Deputados, 28 and 29 June 1962, and Marcilio Marques Moreira, interviewed by author, 7 December 1981.

reports that Goulart allied with traditional sectors of the PTB to undermine the candidacy of Dantas, as his intellectual and technical abilities and his rapid rise to political prominence appeared to threaten Goulart's own position in the party.¹ This was the first example of what a political columnist would characterize as a typical Goulart practice: the systematic "weakening of strong men" in his own government. In our view, the underlying causes for such behaviour should be sought in the traditional misgivings of the traditional sectors of the PTB (the fisiológicos) with regard to the politicians and their allies among the técnicos who derived their legitimacy from their technical and intellectual reputations. The anti-intellectualism of those sectors of the PTB was reflected in the pejorative term - the 'professors' - which they applied to Dantas, Furtado, Carvalho Pinto, and others.²

In this first conjuncture of uncertainty there emerged a stabilizing civil centre around a group of moderately reformist governors. Given their different party affiliations, it was far more inclusive than the 'populist axis' formed by the PTB governors. The positions adopted by the First Governors' Conference held in June at Araxá in order to analyse the national crisis, summarized in the Declaration of Araxá, reflect their relative autonomy from their respective parties (PSD, PTB, UDN, PDC), and their attempt to put pressure upon Congress for the rapid passage of the basic reforms.³ They made the expected attacks upon "the destruction of the federal system" and pledged themselves to "the defence of presidentialism", but sought also to suggest "the new path which might give the people the structural reforms it desires".

-
1. Almino Afonso, in Cultura, 13 Sept 1981. The political columns of Carlos Castelo Branco are collected in Introdução à Revolução de 1964 (Rio, Artenova, 1975, 2 vols). For a broader account of journalistic opinions in the period, see Paulo Francis, "O Que Frustra no Livro de Dreyfuss", Folha de São Paulo, 12 Oct 1981.
 2. Castelo Branco, op.cit.
 3. "Declaração de Araxá", Folha de São Paulo, 12 June 1962.

The conference recommended the strengthening of free institutions, with the immediate adoption of the reforms approved by the conference; it endorsed the struggle against inflation, and called for urban, fiscal, administrative, party, electoral and agrarian reform, and action in Congress of profit remittances; on agrarian reform specifically it suggested that it should be "overseen by a federal body and carried out by the states", with the objective of "preventing the continuation of the present work regime", and extending social legislation to the countryside; it called for access to the land for the peasant, on the basis of expropriation with compensation in public debt bonds or shares in publicly owned and joint (public-private) enterprises; as an additional guarantee of adequate finance for a programme of expropriation it suggested that the land tax should be transferred from the federal government to the states, through financial compensation for the municipalities (which then collected it), so that it could be used to combat speculation in land and set up a colonization fund. Finally, the conference suggested the selection of a 'cabinet of national unity', and the sending of bills embodying the proposed reforms from the Council of Ministers to Congress for voting before the plebiscite on the parliamentary system took place.¹

However, despite this initiative on the part of the governor, relations between executive and legislature continued to deteriorate after 3 July, when the Chamber of Deputies approved the name of Senate president Moura Andrade of the PSD as Prime Minister, with Goulart's approval. The official announcement of the future cabinet, including conservative politicians from the PSD and UDN, and opposition figures from the military, gave added impetus to the opposition of broad sectors of the PTB, and union leaders launched a general

1. There are clear parallels here with some of the policies put forward by the Neves cabinet. At the same time, the proposal for financing through public debt bonds did not contradict the views of the leadership of the PSD: party President Amaral Peixoto had declared in favour of it on condition that the bonds were indexed.

strike in opposition to the incoming Premier.¹ Goulart undermined the authority of Moura de Andrade from the start, and the enmity which this provoked in the Senate president would lead him to play a decisive role against the Three Year Plan in 1963. Goulart demanded an undated letter of resignation from him before putting his name forward, and extracted from him a commitment to presidentialism. On 5 July Goulart asked Almino Affonso the leader of the PTB in the Chamber, to inform a perplexed Congress that Moura Andrade had resigned; Moura Andrade, who had not yet taken office, had not been told in advance.² It was only from this point on that the legislators fully realized the extent of the powers that the new regime had given Congress.

The institutional crisis was solved in July, in the midst of strikes which culminated in the creation of the CGT (General Workers' Command), with the nomination of a moderate PTB politician, Brochado da Rocha, who enjoyed the confidence of Goulart. He had previously been Brizola's Secretary of Justice. This increased the leverage of the nationalist left. At the same time the "threat of a popular uprising", especially in São Paulo, raised by labour leaders, prompted a gradual shift in the Congressional forces of the centre in favour of the early restoration of presidentialism.³ However, the strategy of putting Congress under pressure by means of the mobilization of support from the unions had two consequences which became clear a year later.

The first, extensively documented by Erickson in his discussion of the strikes of July and September-October 1962, at the time of the resignation of Brochado da Rocha, was that not only did labour leaders acquire increased

1. Erickson, pp. 107-111.

2. Castelo Branco, Vol. 1, p.19; confirmed by Almino Afonso, in Cultura, 13 Sept. 1981.

3. The shifting position of these sectors is best illustrated by the case of Mello Franco, author of the Additional Act and longstanding advocate of parliamentarism, who became the strongest advocate of a return to presidentialism in Senate in view of warnings from a PTB deputy for São Paulo on the threat of a popular rising. See Cultura, 13 Sept. 1981.

bargaining power, and the ability to force the choice of a cabinet favourable to their goals, but also Goulart was unable to halt political strikes once they had achieved his own aims.¹ The second consequence was a further weakening of civil power. The growing leverage of the military 'centre' over decision-making was revealed shortly after the new cabinet took office. An immediate military crisis was provoked by a declaration from General Jair Dantas Ribeiro, the commander of the Third Army, in favour of the plebiscite, and the resulting warning he received from Minister of War Nelson de Melo. In the meantime, the prospect of a renewed deadlock between executive and legislature, should Brochado da Rocha be refused the exceptional powers he sought in order to bring in the amendment in favour of a plebiscite, led the Minister of War himself to shift his position. After consultations among the military he made a statement which reflected the growing dominance of the military 'centre' in the interpretation of the concept of 'legality', which had become a conflictive issue. On 1 August, before the official request went forward to Congress, a note issued to the press from the Minister declared:

"The Minister of War ... is convinced that only the strengthening of federal authority, through a demonstration by the people of the form of government it prefers, ... will allow the country to reduce the climate of tension in which it is living ... He considers that the plebiscite should not be postponed ... Acceptance of the views of President Goulart on the question of the plebiscite rests on three principle considerations:

- 1) The Additional Act introduced substantial modifications into the prevailing system of government...
- 2) Among these modifications is the indirect election of the President of the Republic...
- 3) The people were not consulted beforehand, as might have been expected.²

Commenting on this note, the best-informed political commentator of the day, and the most influential in shaping elite opinion, foresaw opposition in Congress to the request from the prime minister, and stated that the crisis appeared insoluble by the normal means; it would be resolved by the party

1. Erickson, pp. 107-112.

2. Published in Correio da Manhã, 1 Aug. 1962, and reproduced in Castelo Branco, Vol. 1, p.223.

which enjoyed military support. Such an outcome was likely because:

"The dominant military group would be inclined to make its own objective interpretation of the concept of legality if the crisis created for the period commencing on 6 August should materialize... In the case of conflict between the executive and the legislature ... with the subsequent resignation of the ministry, the military chiefs would consider the person of the president as the incarnation of legality itself, in his double position as head of state, and, as he is in formal terms, Commander-in-Chief of the Armed Forces.. Congress, if it resisted, would place itself beyond the law, at least to the extent that it opposed or resisted the President of the Republic, the sole interpreter of the law. We should then be faced ... with a de facto situation, the imposition of which would obviously depend upon the prior resolution of the system of military forces".¹

However, the statement from the Minister of War did not have the effect of intimidating Congress, as the congressional leaders of the opposition were convinced, with some reason, that the military were not unanimous with respect to Goulart. The UDN calculated that Kubtschek had had a decisive but only temporary influence upon the state of mind of the Minister of War, and this proved correct, in the longer term.² The fall of the Brochado da Rocha cabinet and the consequent dismissal of the minister represented a key turning point in his gradual alignment with the opposition group in the military.

The defeat of the Brochado da Rocha cabinet occurred between 12 and 15 September, as a result of the joint action of the congressional forces of the PSD and the UDN, natural allies where agrarian reform was directly or indirectly involved. The request from the cabinet for special powers in order to speed up the legislative process was based on a constitutional amendment drafted by PSD jurist Oliveira Brito. It introduced changes which would allow a plebiscite to be carried out along with the October elections, and proposed the replacement of the requirement for a two thirds majority for constitutional reform with that for a simple majority.³

1. Correio da Manhã, 1 Aug 1962, in Castelo Branco, pp. 28-9.

2. Correio da Manhã, 1 and 15 August 1962, in Castelo Branco, pp. 28 and 56.

3. Oliveira Brito amendment in Castelo Branco, p.223.

Goulart's behaviour was characteristic. Faced with the prospect of the defeat of the formal proposal from the executive - one which Goulart himself had taken the lead in framing - he manoeuvre behind the scenes to escape from his commitment to the cabinet. A few days before Congress was due to consider Brochado da Rocha's request, Goulart reached an agreement with the traditional leaders of the PSD of Minas Gerais, Capanema and Valadares, thanks to the mediation of Kubitschek. It was agreed that Congress would reject the Oliveira Brito amendment and pass a compromise amendment setting the date of the plebiscite for 6 January 1963. The President was abandoning his most radical plans, and those of his party, in return for the achievement of his most immediate objective: the price for this solution to the institutional crisis was the resignation of Brochado da Rocha, which Goulart himself requested.¹ Furthermore, it was an action taken without consulting the nationalist left in Congress or in the union movement, and a victory for the PSD. The general reaction on the nationalist left was characterized by Brizola's wry comment: "the captain has changed horses".² Goulart's course of action, erratic as it was, and characteristic of his personal preference for conciliation, is intelligible as a bid to re-establish the threatened PSD-PTB coalition, and to drive a wedge between the UDN and the PSD. Goulart had found a scapegoat for an inviable policy to which he had himself been committed earlier, but at some cost to his image as a leader of the radicalized labour movement and his reputation as chief of state in the eyes of influential liberal and centre-left political commentators.

3.4 Pressures from the left and the rise of the PTB.

The general strike of September, coinciding with the institutional crisis and coming at a time when real wages had fallen by a quarter since

1. Correio da Manhã, 14 and 17 Sept. 1962, in Castelo Branco, pp. 54-60.

2. Ibid.

December 1961, was clearly political in nature: the CGT, which led it, presented Goulart with a nine-point programme, with the immediate carrying out of the basic reforms a sine qua non for continued support for the government.¹ The declining hold of establishment populist leaders over the union movement, seen in the difficulty Goulart had in halting the strike movement once the Capanema-Valadares amendment had been passed, was paralleled by the growing ascendancy of Almino Affonso over the CGT, and of Brizola within the Popular Mobilization Front (FMP), which brought union leaders, the National Union of Students, and the emerging sailors' and sergeants' movement together into a reformist offensive.

While the organized radical left saw Goulart's behaviour as characterized by 'wheeling and dealing', or mere indecisiveness, and sought to exert pressure upon him through strike action and personal representations from union leaders, the non-opposition press took a somewhat different view. In daily commentaries on the situation the Coluna de Castelo in the Correio da Manhã, he was depicted as a caricature of Vargas in his manipulation of the forces in conflict in order to increase his personal power: for Castelo, Brochado da Rocha was "a premier for sacrificing".² On similar grounds Paulo Francis, then an influential commentator on the leftist Rio paper Última Hora, has recently re-examined the events of 1962 and 1963, and criticized a tacit idealization of Goulart in academic literature.³ He attacks the neglect of techniques of government, and the exclusive emphasis either upon structural factors or upon the 'great conspiracy' on the right in explanations of the coup, reduced to an expression of class antagonisms:

"Of which Goulart government are we speaking? That of parliamentarism in which Brochado da Rocha had a programme which Jango sabotaged? Of the frustrated attempt to make Dantas prime minister,

1. Erickson, pp. 111-3.

2. Castelo Branco, p.21.

3. Paulo Francis, Folha de São Paulo, 12 Oct 1981.

which they say Jango himself sabotaged? Of Treasury Minister Santiago Dantas (in 1963, executor of the Three Year Plan)? Of Carvalho Pinto? Or of (the government's move to nominate) the pelego who was an intimate friend of General Costa e Silva, and who ended up as a minister, and betrayed Goulart as did so many others?

Paulo Francis points out that the loss of prestige of each of these protagonists and the inevitable impact upon the policies they proposed either corresponded to or was preceded by one of Goulart's increasing frequent changes of tack, and concludes:

"But these petty matters are not of interest ... because this is politics, diffuse, confusing, individualist, full of chance and unforeseen developments, which cannot be fitted into models.

The October elections confirmed the growing Congressional force of the PTB, which emerged with 30 per cent of deputies, as against 20 per cent in 1958. It also marked the rise of a number of small parties on the centre left, the Christian Democrats, Ferrari's Renovation Labour Movement (Movimento Trabalhista Renovador), a left split from the PTB, and the Socialist Party.¹ They marked the relative decline of the conservative parties, with the PSD falling from 35 per cent of deputies to just over 30 per cent, and the UDN, despite a slight increase in its share of seats to 23 per cent, being replaced by the PTB as the second largest party. The narrow survival of the PSD as the largest party was practically an irrelevance in view of the evidence of the rate at which the PTB was growing, and of its increasing penetration in the traditional redoubts of the conservative parties in the less developed states and the towns of the interior where the industrial working class was significant. As Campello de Souza notes, this was a sign of a process of realignment in the party system, to be interpreted as a move toward a greater representativity, as the PSD and UDN tended to derive their electoral force from their rural bases and, in the case of the UDN, also from the conservative urban middle classes.

From our point of view, the October elections were the background

1. Campello de Souza, pp. 139-198.

against which the new economic strategy expressed in the Three Year Plan, and exclusively the responsibility of the PTB, was being shaped. The political calculations of the técnicos should be judged in the light of the election results, the internal divisions of the conservative parties, with tendencies closer to the PTB emerging in the ala moça of the PSD, and the bossa nova group in the UDN, and the conquest of 39 seats by the smaller centre-left parties. It seemed, in other words, that the potential existed for a new centre-left coalition which might legitimize the strategy of consensus adopted, as we have seen in the previous chapter. The greater representativeness of the party system, with the increasing participation of the sectors left out of account in previous policy formulation, entered directly into the calculations of the architects of the Three Year Plan, as did the growing strength of the reformist group among state governors, swelled by the election of Miguel Arraes in Pernambuco, and Mauro Borges in Goiás.¹ The issue left unresolved and which Campello de Souza neglects, to be settled in the following year, was whether a party coalition in which the PTB was dominant could demonstrate a capacity to govern. In this respect, the Three Year Plan was crucial.

1. The gubernatorial elections also strengthened the opposition group, with the election of Adhemar de Barros in São Paulo, and Meneghetti in Rio Grande do Sul; however, key figures such as Magalhães Pinto (Minas) and Juracy Magalhães (Bahia) were signatories of the Declaration of Araxá.

CHAPTER VII

THE LAST-DITCH ATTEMPT AT POLITICAL MANAGEMENT OF
DISEQUILIBRIA: THE THREE YEAR PLAN AND AFTER, JANUARY-DECEMBER

1963

The episodes surrounding the implementation of the Three Year Plan between February and June 1963 provide a wealth of insights into the way in which political constraints to stabilization-cum-growth policies and to the reaching of consensus on an economic strategy operated. The most striking features of the period are the growing politicization of economic issues and the steady hardening of the respective positions of the major political sectors. This holds good for internal actors and for those responsible for shaping U.S. policies toward Brazil; for largely political reasons, the economic preferences of the latter were extremely similar to those of the IMF.

We shall argue that while some technically avoidable errors can be identified, the contrast between the aims and the results of the Plan is largely explained by the simultaneous action of the two types of constraints to economic policy making studied here. Firstly, the existing institutional framework imposed limits upon the extent to which stabilization action could be made compatible with anti-cyclical policies, and secondly growing tensions within the social compact deprived the government of the legitimacy it needed to implement the relevant policy goals. Once the PTB was guaranteed access to power one major effect of the prominence gained by the call for antagonistic tasks from hitherto marginalized sectors was the heightening of tensions between political actors. The process gathered momentum as soon as the short-run political costs of the emergency therapies became visible and took on the form of a widening gap between técnicos and politicians in key executive positions, with the two

groups exposed to different types of problems. One of the paradoxical effects of this process was that the access to power of the most prominent sub-sector of the técnicos nacionalistas was accompanied by the progressive erosion of their role and self-image as the accredited spokesmen for the people within the state apparatus. The end result was the loss of efficacy of the function and the system of values from which in the past those actors had derived their legitimation within the political system. This is a specific example of the more general process of the erosion of the left wing of the civil and military political 'centre'.

Analysis of the political factors bearing on the process of economic policy making in the first half of 1963 demands an examination of an issue hitherto ignored in the literature. Current interpretations of the causes of the political crisis which ended with the fall of the regime established in 1945 are mainly concerned with longer term processes, and give considerable weight to the institutional deadlock between a 'progressive' executive and a conservative legislature. This in itself is acceptable enough. However, if due weight is to be given to the more conjunctural obstacles to the political management of disequilibria, attention has to be directed to internal conflicts in the sub-sector of the political elite formally committed to the programme of the government and located primarily within the executive. We will be concerned therefore with the disruption of the system of alliances designed to support the government's austerity programme. Given the failing efficacy of populism as a control mechanism, the process was reflected in the emergence of rival power centres in the executive itself, and of rival political and economic strategies. These divisions lay behind, a) the absence of consensus within the government on how to minimize conflicts associated with the structural reforms, which dictated the timing and form of presentation of the

Three Year Plan; and b) the failure to organize a centre-left bloc in Congress in support of the official economic strategy.

The key hypothesis which regulates our analysis of this conjuncture is that the weakening of the Goulart government took on new dimensions in the first half of 1963, and was manifested in a dispersion of power within the decision-making system, aggravating the weakness already stemming from the division between the executive and the legislature, and the proliferation of extra-institutional groups supporting rival projects. This fragmentation of the executive explains the eventual postponement of stabilization-cum-growth policies by the government.

We do not wish to minimize the impact of the strained relationships between the executive and the legislature upon the process of decision-making during the period. Given the overall decline in the rate of investment, and the exhaustion of traditional methods of financing capital accumulation and current demand - inflation and foreign borrowing - certain institutional reforms were essential if effective stabilization-cum-growth policies were to be implemented. As we have seen in chapter V, fiscal, financial, and administrative reforms were essential to the future exercise of the entrepreneurial function by the state and private sectors of the economy, in order that capital accumulation might continue independently of inflation. They presupposed the 'deepening' of State intervention in the economy, and as they implied a redistribution of advantages and penalties among economic agents, they could not be neutral from a political point of view. Whatever policy was to be adopted regarding the scope of the reforms, the required consensus would have to embrace Congress and the labour unions. The reforms assumed that the government could achieve a new understanding with these forces, but that was not to be the case. We shall point where necessary to the effects of the lack of appropriate institutions upon economic performance in 1963, but as the prime conflictive issues which further damaged relations between the executive and the legislature were agrarian reform and the question of civil service pay, we shall have

little to say regarding entrepreneurial reforms.¹

The issue of public sectors salaries deserves particular attention, in view of the negative reactions provoked among civilian and military opposition groups. These reactions illustrate a typical Latin American phenomenon: the political inviability of the maintenance by a 'popular' government of a minimal level of public investment at the price of squeezing the major item in current expenditure, above all, if price inflation is endemic and Congress declines to exercise its power to raise taxes.² In the Brazilian case, there were two additional aggravating factors. On the external front, senior US officials proved adamantly opposed to a gradualist approach to stabilization action; secondly, the question of military salaries and the preservation of differentials had traditionally been one of the most sensitive aspects of the federal budget. We shall be dealing therefore with one of the most striking developments among public employees, the politicization of economic issues and the call for antagonistic tasks among the military themselves, cutting across the ideological differences between them and across hierarchical divisions within the ranks. As pressures of this kind brought the armed forces onto a collision course with government, the members of the executive involved, the head of the Military Household and the Minister of War, faced a dilemma.

The actions of public employees as a whole in the period provide the most telling example of the narrowing range of options left to policy makers in the political management of disequilibria. There are two reasons for this. Firstly, the more sophisticated sectors of public employees took little regard of the vulnerability of the economy once the government sought to resolve its own dilemmas through a discriminatory salary increase which favoured earners at the bottom end of the scale. Secondly, the salary increases won by federal public servants set the standards for state and municipal employees, and the

1. Diário do Congresso Nacional, March-August 1963.

2. See Thorp, "Economic and Social Consequences of Orthodox Economic Policies in Argentina in the Post-War Years", Bulletin of Oxford Institute of Economics and Statistics, Vol. 27, February 1964, and "Inflation and Orthodox Economic Policy in Peru", ibid, Vol. 29, August 1967.

federal associations were highly organized. Thus the action spearheaded by this group was perhaps the most effectively articulated and autonomous movement organized on a national scale.

1. Técnicos and politicians: a last attempt at reform through persuasion, January-March 1963.

One of the predictable effects of Goulart's victory in the plebiscite of 6 January was to alter the function of the Three Year Plan and its principal architects in the political sphere. The element of mobilization in the first global development plan disappeared from what in Furtado's words "was also a plan of government, which would have been of use to any government"¹

We pass over the initial period of euphoria experienced by the PTB and its allies once in government, and concentrate upon the period from end of January until the end of March. This directly preceded the period in which the principal unknowns identified by policy makers - the reactions of labour organizations and of civil servants, and the official US policy toward Brazil - became the source of serious dilemmas for the Goulart government. In these early months Congress was in recess, and the dominant activity of the period consisted of the taking up of positions by political actors on the economic strategy that was being applied.

To judge from the statements of the President, the composition of the cabinet, and the actions of key members of the executive, it seems clear that the latter were initially committed to the Plan, and sought to introduce the relevant policies in their respective areas, in an effort to build up the consensus the government so badly needed. The individuals concerned, in addition to Goulart, were Almino Afonso at the Ministry of Labour, Santiago Dantas at the Treasury, Furtado, at the Ministry of Planning, Antonio Balbino of the PSD, and Minister of War Amaury Kruehl.

1. Furtado, interviewed 15 and 18 April, 1977.

Goulart gave a long press interview on 30 January, expressing views which seemed consistent with the political strategy of the técnicos.¹ The basic dilemmas the government faced, such as the need to justify unpopular decisions to eliminate exchange subsidies on wheat and oil, were put over in reassuring terms, as temporary measures which could be offset by short-term expedients such as the creation of a body intended to control inflation by penalizing speculative over-pricing (SUNAB), and long-term commitments such as structural reforms, which were given top priority:

"In fact we face the following problem: either we continued to print money in a disorderly fashion, and in increasing quantities, or we had to take the courageous and practical decision to face up to these distortions and seek, by cutting off these subsidies, to slow the rate of inflation... I feel justified in taking these measures ... in the conviction that within a relatively short time they will bring real benefits to the people... We shall seek to surround these measures with others directly aimed at protecting the pockets of the people. At the same time, the government intends to send to Congress a message proposing basic reforms which we believe will create conditions for improving the life of the people. One of the first will be agrarian reform...²

The intention of printing less money in order to hold to the basic lines of the programme was underlined by the admission that although a ceiling of 40 per cent for civil service pay increases was envisaged, this might yet be revised upwards, as "no plan is inflexible and static". Care was taken to play down the politically sensitive measures aimed at relieving the strains on the balance of payments, which involved a renegotiation of the foreign debt and an approach to the IMF as well as a bid to increase exports. The arrival of the monetary authorities in Brazil, Goulart declared, "obeyed the usual practice extended annually to Latin American nations". Furthermore, by drawing attention to the capacity of Santiago Dantas and the efficiency and high qualifications of ambassador Campos in Washington, he signalled his commitment to the strategy of consensus which dissociated him from the most radical sector

1. O Estado de São Paulo, 31 January 1963.

2. Ibid.

of his party.¹

The selection of Almino as Minister of Labour, determined by his unrivalled standing among the labour organizations and his links with the CGT, was consistent with the political strategy of the técnicos. The cooperation of the trade unions, in terms of persuasion and control, was essential if wage demands were to be kept within bounds. Almino's attitude was initially cooperative; this gains added significance against the background of the maritime workers' strike in progress when he took office, and the threat of strike action from workers in the power, telephone and tramway sectors.²

At the swearing-in ceremony at the end of January Almino called for collaboration between capital and labour, "indispensable for a developing country and asked the working class to demonstrate its confidence in his government by postponing strike action while he studied its problems. Within days he had declared that the government was not contemplating wage freezes or repression against strikers, and called on labour organizations to practise self-restraint in their demands, and to defend their class interests by adopting the longer-term perspectives of the national interest.³ This assumption that some form of voluntary wage-restraint was essential, given the extreme vulnerability of the economy, should be assessed in the light of the aims underlying his initiatives at the ministry until the beginning of April: the elimination of administrative corruption and the improvement of the efficiency of the institutions under his control, both in the ministry itself and in the social security system.⁴

There were however contradictory aspects to Almino's political strategy

1. ibid.

2. Almino Afonso, interviewed 18 and 19 December, 1978.

3. ibid.; see also Erickson, p.81.

4. For a detailed discussion of the policies of the Ministry of Labour, see Erickson, pp. 79-91, which is the source of the information below.

in this period. He adopted a conciliatory attitude in an endeavour to win the cooperation of labour in the stabilization effort, while his "reformist administrative approach" as Minister broadened the scope for conflict within his own party. The techniques used to restructure institutions which were decisive as sources of patronage and hence vital to the control of the political machinery of the PTB were designed to remove labour officials from the populist establishment from their posts. New appointments to key posts and the application of standards of merit in competition for positions and in punishing financial and administrative malpractice by labour officials brought about a redistribution of political assets in favour of Almino's allies. The effect was felt most strongly in the PTB of São Paulo, controlled by Ivette Vargas, and that of Guanabara; in each, the Ministry waged a long and hard struggle to create or extend power bases of its own. What Erickson refers to as "the use of traditional means for radical ends" was also a vehicle for the expression of the ideology of a new trabalhismo, and of a political struggle within the PTB.¹

Almino's offensive was also aimed at securing greater penetration for the PTB in São Paulo, where the party was weak. It was felt that administrative reform and an attack on clientelism would appeal strongly to progressive sectors of the middle class, left unattached after the demise of Quadros. But it was also bound to upset Goulart, as it threatened his position.

Considerable attention was devoted in the period to popularizing the economic policy adopted, as Furtado and Dantas courted academic opinion, business, and the media, and Dantas visited each of the major unions in turn.² Addressing the leading business associations, the two ministers appealed for collaboration from the business sector and stressed their commitment to a gradualist approach

1. ibid.

2. O Estado de São Paulo, 8 January and 12 February 1963, and interview with Jose Gregori, adviser to Dantas in São Paulo, 5 January 1981.

to the reduction of inflation, without concealing their intention to protect real wages and institute a progressive tax reform. Such statement on wage policy in the Plan were endorsed even in such redoubts of conservatism as the Associação Comercial leaving little doubt that at least as far as intentions were concerned, there was a substantial difference between the architects of the Three Year Plan and policy makers after 1964. Wells appears therefore to be wrong on this point.¹

Addressing representatives in São Paulo of the Associação Comercial and FIESP, Furtado criticized the excesses of the extremely restrictive profit remittances law, terming it "ungenerous and unintelligent", and bound to "lead to confusion abroad", but reaffirmed the need for a "realistic wage policy", by which he understood "the establishment of a flexible price system, with wages adjusted not only in relation to inflation, but also in relation to increased productivity".²

Dantas made a similar statement to the Associação Comercial in Rio, the most conservative redoubt of private enterprise.³ After a touching appeal for the cooperation of business, "as the current year is decisive for the survival of the economy", he repeated the determination of the government that wages would not bear the burden of stabilization policies:

"Firstly, the governemnt will make an exemplary sacrifice in its expenditure, then we count upon the collaboration of the producing classes in order to be in a position to ask the working classes for sacrifice, support and understanding in their various demands ... as an increase in wages is the only weapon the worker has in order to obtain relief or victory over the burden of inflation".

In reiterating its intentions, the government was concerned to reassure the labour movement. Left wing union leaders had opposed the plan from the start, fearing a wage freeze, and their misgivings had been reinforced by the misinterpretation of Almino's remarks at his swearing-in ceremony by the leader

1. Wells, "Growth and Fluctuations in the Brazilian Manufacturing Sector during the 1960s and the Early 1970s", pp. 221-8.

2. O Estado de São Paulo, 8 January 1963.

3. ibid. 2 February 1963.

of the PCB. In comments given wide press coverage, Prestes had flatly opposed the call for wage restraint, interpreting it as a demand that, the right to strike should be renounced.¹ The key protagonists in the executive, and in particular the Minister of Labour, were walking a tightrope. Emerging some weeks later from a meeting with Dantas, Balbino, and Helio de Almeida, Almino sought to reassure labour with the statement that "the government did not intend to freeze wages," but rather to "call on the class to reduce its demands to a minimum in order to make economic stabilization possible", revealing the dilemmas which had occasioned the ministerial meeting.² One of the problems discussed had been the means by which the government could raise the prices charged by Light (the foreign-owned electricity distribution company) in order to make it possible to grant a bonus of 50 per cent to the tramway, telephone, electricity and gas workers. In all probability the fact that the Light and Power Co. was a Canadian-American holding company and a favourite target of nationalist campaigns made such unpopular means to the end of wage increases even less acceptable.

On the other hand, the various reactions of the business community, and of the industrial sector in particular, seemed to provide the consensual support which the government badly needed in order to implement its strategy, despite the declarations of Dantas and Furtado regarding the high priority given to preserving real wages. The journal of the CNI, Desenvolvimento e Conjuntura, devoted a special issue to the Three Year Plan, and replied with an enthusiastic "Yes!" to the question of whether the Plan could become a dominant force in the economic evolution of the country.³ The writer pointed out that "the credit policy guarantees that the private sector should not suffer pressures which force a retraction of investment", and concluded that

"it is possible to reconcile development and stability ... as fortunately the Plan abandons the orthodox concept of stabilization..

1. Erickson, p.81.

2. O Estado de São Paulo, 8 February 1963.

3. Desenvolvimento e Conjuntura, February 1963, pp. 9-12.

it is of great originality... and its gradualism makes it possible to prevent monetary policy provoking cuts in public and private investments" (pp. 6-7).

Significantly, the same writer had opposed the Lopes-Campos stabilization plan of 1959.

Here is further evidence, then, that Wells is wrong to argue that the private sector offered generalized resistance to the Plan. He neglects the fact that in the first quarter of 1963 ineffectual credit and monetary restrictions allowed private sector firms to enjoy comparatively easy liquidity positions.

The técnicos of the CNI continued to have reservations regarding wage policy, though they expressed them more tactfully than in 1959. They argued that the Plan did not take account of the compression of differentials implicit in the proposal to raise minimum wages, and protested that "the preservation of the wage scale stimulates specialization and the acquisition of skills among the workforce".¹

The Memorial sent to Goulart by the CNI in early March expressed business support for a policy of gradualist measures against inflation on the part of

"a government which intends to subject public spending to strict planning, based on a system of financing compatible with expected private investment, wage policy, and the performance of the external sector".²

In exchange, as a token of CNI's willingness to collaborate, the signatories pledged themselves to a number of measures of a self-disciplinary nature: 1) "increases in the prices of industrial products should be strictly confined to real increases in costs", 2) speculative stockpiling should be discouraged, in order to prevent unnecessary pressure on the demand side, 3) productivity should be increased, with the collaboration of the workers. The government had in fact secured a price freeze for fortyfive days from mid-February.

*

To judge from the declarations of political actors within the decision-making system, the effort to build a consensus around official economic policy

1. ibid, pp. 123-130.

2. Desenvolvimento e Conjuntura, March 1963, pp. 4-6.

reflected "a unity of views within the executive". This seemed confirmed at the the end of March, when the Head of the Military Household lent his support to the wage policy laid down for public employees. Similarly, the performance of Campos in Washington from late 1962 seemed to confirm the impression of support for "the need to overcome the state of underdevelopment" as the priority for a country whose record in promoting economic development left little to be desired.¹ Ten years later Campos stated that his support for the Plan was based on the conviction that it was "an island of sanity", and a "barrier preventing the breaching of the dyke" between January and June 1963; he attacked the radical left for "attacking structures instead of correcting the conjuncture", but praised Dantas as one of the last "builders of bridges rather than walls".²

However, this "unity of views" within the executive was fragile, for a number of reasons. The members of the first presidentialist cabinet came from varying political backgrounds, and were subject to diverse pressures. In addition, the different ministers had precarious bases of support in the parties within the coalition, and in particular within the PTB, with its blend of radicals and populists. The tensions between the fisiológicos and the ideologically oriented grupo compacto were exacerbated by the nomination of Almino and by his actions in his first months in office. According to a contemporary political commentator, he represented "the point of no return on the dividing line between two versions of the PTB".³ A further complication arose out of the prior and continuing commitment of Almino to the FPN, whose reformist offensive was renewed on 3 February with the Termo de Compromisso issued by its executive commission, which included men in the confidence of the minister.⁴ The signatories of the document pledged themselves to "support all 54 points of the programme,

-
1. Campos, interview for New York Times, in O Estado de São Paulo, 27 September 1962.
 2. Campos, O Estado de São Paulo, 23 August 1974.
 3. Erickson, p.80.
 4. "Termo de Compromisso" issued by Executive Commission of FPN, National Congress: archive of the then PDC deputy and Relator of the Congressional Agrarian Reform Committee 1963-4, Plínio Sampaio.

on pain of dismissal from the ranks of the FPN". Some were incompatible with the political and economic programme of the government, and of a socialist character which implied a much stricter control of the economy by the state than could be achieved within a free market.¹ This was a welcome sign of the vitality of the legal party system in Brazil, capable of generating a 'utopian' programme in a manner which was normal and desirable in a democratic system, and provided a point of reference and motivation, illuminating the potential of the situation and working upon it. Directly or indirectly, however, the FPN was part of the governing coalition, and the call for the immediate implementation of the measures it supported was bound to increase tensions with the PSD and UDN over the radical agrarian reform programme, and with traditional sectors of the PSD and the PTB over administrative reform, the elimination of clientelistic practices, "the liberation of unions from all pressures deforming popular action", the demand for "effective institution of selection and advance by merit within the civil service." Finally, the provisions regarding the cost of living and independent economic development revealed commitment to a conflict-maximising approach on the issue of foreign capital, and disregard for US norms regarding the nationalization of US-owned properties.² The document called for a state monopoly on foreign exchange, coffee, and rubber, the nationalization of the meat, milk, wheat, and pharmaceutical industries, new legislation on royalties, patents, and licences, the public takeover of foreign concessionaires in the transport industry, the nationalization of credit, investment, insurance, finance, and advertising companies, and the rejection of political conditions attached to loan contracts for foreign aid of any kind.³

1. See especially pp. 2 and 4.

2. The Hickenlooper Amendment approved by the U.S. Congress in 1962, making financial assistance legally conditional upon proper compensation to U.S. companies expropriated in the countries concerned, was a direct response to the expropriation of an IIT subsidiary in Rio Grande do Sul by Brizola in February 1962.

3. Termo do Compromisso, FPN, pp. 2-7.

In view of Dantas's political career, he could be considered both a politician and a técnico. He had been a professor of international law, a corporate lawyer, and a legal adviser to the Abbink Mission and the Joint Brazil-USA Commission, and more recently figured as one of the architects of the independent foreign policy. He was well qualified, therefore, to take on the delicate task of negotiation with official US agencies or international credit agencies. His political and intellectual style, however, had little appeal with the traditional sectors of the PTB, which prided themselves on anti-intellectualism. He also met resistance from other quarters some inside and some outside government. His past and his moderate reformism made him a liability among the técnicos gaúchos who had worked their way into the decision-making system through Brizola, and formed a circle very close to the President. Despite the lack of political and technical experience as policy makers, as their activities had hitherto been confined to the level of state government, they acted from the beginning as a shadow cabinet within the government, and advanced an alternative strategy to the Three Year Plan. They thus represented a leading nucleus of opposition to Dantas and Furtado, along with Goulart's secretary, Caillard.¹ The mentor of the group, Cibilis da Rocha Viana, argued for a more autarchic development model which gave priority to agrarian reform as a precondition for halting inflation and guaranteeing the expansion of the internal market, and provided benefits only for the state sector and the national private sector. Their demands regarding the tightening of control over the activities of foreign capital and over nationalization were far more radical than those Dantas was likely to negotiate in Washington.

Dantas was viewed with equal suspicion by the grupo compacto, although Almino did not break with him until the end of April. A third source at least of suspicions regarding Dantas came from the conservative sectors of the PSD. They looked askance upon his strong view on two subjects. These were a) his condemnation of laissez faire monetarism as socially regressive, the source of his commitment since 1959 to the need for a Central Bank and for a selective credit policy, and the reason, along with his support for agrarian reform and a progressive tax reform, for the veto imposed by the PSD when

1. (see over **...)

belief that public investment should not be affected in any way by the commitment to stabilization action. He insisted that cuts in public spending should be confined to current spending; hence his advocacy of a restructuring of public sector pay scales, particularly as regarding the most privileged top salary earners.²

While the liberal press awaited governmental action with some optimism,³ the presence of the gaucho group in the highest spheres of government and the links between Almino and the FPN and the CGT gave added fuel to the campaign unleashed months before by conservative sectors in an attempt to throw doubt upon Goulart's commitment to stabilization policies.

The reaction of opposition political sectors is best represented by the negative position taken by the Estado de São Paulo on the ability of the técnicos to assert their goals and skills over the objections of the politicians. The theme that 'politics defeats the técnicos', regardless of political and ideological differences between the latter, had gained momentum with the failure in the previous year of the stabilization policies brought forward by the Neves cabinet and reactivated without success by Brochado da Rocha.⁵ The Estado de São Paulo set the tone of debate over governmental policy in opposition circles, and it began to reduce the connotations of 'politics' from the broadly pejorative reference to populist practices traced back to Vargas to the machiavellian behaviour of Goulart himself, and his tendency to frustrate systematically attempts to put the national house in order by urging Brizola and the FPN or

1. Interview with Marques Moreira, 6 December 1981.

2. According to Marques Moreira, Dantas was considering, on the advice of the economist Dias Leite, measures to mobilize resources for investment. These included fiscal measures, compulsory loans and deposits, and the creation of a National Investment Fund through indexed long-term bonds issued by the Banco do Brasil.

3. Castelo Branco, Vol. 1, pp. 96-135.

4. O Estado de São Paulo, 2 and 21 January, 1963.

5. Ibid., 27 September and 16 October 1963.

** Interviews with Sebastião Cunha, 16 December 1978 and 16 January 1979, and with Marcilio Marques Moreira, economic adviser to Dantas, 6 December 1981; also Carlos Castelo Branco, Introdução à Revolução de 1964, Vol. 1, pp. 96-135.

Almino and the CGT to create crises to order.

The reaction of US ambassador Lincoln Gordon was somewhat similar. The objections he put to Goulart concentrated upon the cabinet, which he described as a "mixed bag", and Almino in particular, whom he saw as "very very red".¹ Gordon's diagnosis played a part in shaping official US policy during and after Dantas's negotiations in Washington at the end of March. The imposition upon the Brazilian government of increasingly tight financial conditions was seen and used by US policymakers as a political tool which would force Goulart to dissociate himself completely from his allies on the radical left.

Between the end of 1962 and 1963 the characteristic reaction of conservative sectors, including the liberal técnicos, was not so much one of frontal attack, but rather of scepticism regarding the viability of the political strategy in view of its incompatibility with populism, and criticism of excessive interventionism. The latter objection came above all from the traditional sector of the UDN, and from the sub-group of liberal técnicos around the Revista Brasileira de Economia.² On the whole, representatives of the neo-liberals expressed their reserves in 'technical' terms; an exception to this was Gudín, who launched a frontal attack on the 'philosophy' of Furtado's ministry, and questioned the social and political desirability of agrarian reform. The ultra-conservatives were still making their voices heard.³

2. Lost in no-man's land: March-June 1963.

However mixed the reactions to the Three Year Plan in the first three months of 1963, businessmen, union leaders, and public employees did all seem to believe that price inflation and the foreign exchange crisis could be managed. To this point the opposition of left-wing union leaders and the varying responses

1. Parker, p.34.

2. O Estado de São Paulo, 1 December 1962, and Revista Brasileira de Economia Rio, Fundação G. Vargas, Vol. 16, No. 4, December 1962.

3. Gudín, in Digesto Econômico, No. 171, pp. 33-37.

of civil servants and been largely defensive, dictated by the prospect of the further erosion of real incomes. But with inflation at 16 per cent for the quarter to the end of March, against a programmed 25 per cent for the whole year and Dantas getting poor results from his negotiations in Washington, the government was losing the authority to sustain its economic policy, and its conflict minimizing approach to the structural reforms. The political management of conflict was rendered impossible by evidence that inflation was getting out of control.

The re-opening of Congress brought latent tensions to the surface. Tensions over a new governmental offensive on agrarian reform promised in the Presidential Message which cautiously announced that a new draft bill would be put before Congress by the executive. This came in the wake of the approval of Goulart of the Rural Workers' Statute on 2 March, after its passage through Congress had contributed to a lessening of tensions in this area, at the end of the previous session.¹ In addition, when Congress opened the bill to increase the salaries of civil servants came before it, and it became clear that the executive was determined to hold to the 40 per cent ceiling set by the policy makers in rigid application of the criteria laid down in the Plan.² It was surprising that a government hitherto seen to be protective of living standards of wage earners should have proved unwilling to compromise, especially in the light of the political weight of the sectors affected, the average wage increase of 60 percent over the peak of the previous year in other sectors at the time, and Dantas's gift for conciliatory solutions which kept fundamental principles intact.

This intransigence on the part of the government reflected a commitment to the reduction of current expenditure. In the second quarter, the Treasury deficit came to bear the major burden of the stabilization effort, to an

1. Estatuto do Trabalhador Rural, 2 March 1963, transcribed in Carone, pp. 324-335.

2. Nascimento, K. "O Aumento de Vencimentos do Funcionalismo Público Federal em 1963", in Política de Administração de Pessoal, estudo de dois casos, Rio, Fundacao, G. Vargas, 1966, pp. 38-87.

extent unforeseen by policy makers. This came about as a result of an ad hoc response to the conditions which had made price inflation unmanageable in the first quarter. The inflexibility of US officials and the Ambassador made a decisive contribution to reducing the already narrow range of options open for the political management of inflation. We therefore turn to a closer examination of these episodes.

2.1. The key sources of dilemmas: the resumption of inflationary governmental behaviour and the political strategy of the USA.

a) The reasons for the contrast between economic targets and results in the first quarter.

The factors responsible for uncontrolled price inflation in the first quarter were primarily economic in nature. There were foreseeable cost pressures arising out of the emergency measures taken at the end of January, directly affecting consumers, the removal of exchange subsidies on wheat and oil and the imposition of 80 per cent import deposits payable by the importer through the compulsory purchase of Treasury Bonds. There is also evidence of sudden and substantial upward revisions of mark-ups in private sector industries, where a high degree of oligopoly existed, from December 1962. This was a measure taken in anticipation of a future price freeze.¹ This led to an immediate increase in money supply, of the order of 8 per cent in December 1962, and a sudden increase in government current expenditure, as this was the item of government spending most sensitive to price changes in the private sector. These developments fuelled inflationary expectations and jeopardised the Plan by placing unexpected strains on the Treasury's cash holdings. It was also a lesson not forgotten by Campos and his advisers after 1964; from then onwards, anti-inflationary measures would be taken first and announced afterwards.²

1. Sochaczewski, pp. 239-250. This is the source for data on money and credit policy in the first quarter of 1963.

2. Ibid.

Other factors combined to limit the efficacy of measures to restrict monetary and credit expansion, and to reduce already scanty government revenues. Some were miscalculations which can be described as avoidable errors; others related to institutional limitations which prevented effective control of the monetary system and made a progressive tax reform difficult.

Policymakers failed to raise compulsory deposit rates in the banking system, leaving them instead at 22 per cent and 14 per cent for demand and time deposits respectively, although Congress had granted a rise to 28 per cent. The intention may have been to win business confidence and demonstrate a determination to sustain a minimum level of investment and current demand in the private sector. A second and more decisive error lay in the narrow definition adopted of high-powered money, one that seems to have been common to all the técnicos. Unlike currency or bank deposits, demand deposits in the Banco do Brasil were treated as secondary money. The net result was that with the programmed Treasury deficit standing at 300 million cruzeiros, the banking multiplier was underestimated from the start. Sochaczewski calculates that even if the target had been met, the expansion of means of payment would have been 10 per cent higher than estimated.¹ A third miscalculation had a direct effect upon the Treasury deficit. It concerned the expected revenues from compulsory deposits in the banking system arising out of the sale of treasury bills. With constant rates maintained for compulsory deposits, the increase in reserves during 1963 should have been calculated to yield 60 million cruzeiros, rather than the 100 million mentioned in the Plan.²

Institutional deficiencies militating against strict application of the ceilings set for loans from the Banco do Brasil to the private sector or other forms of control, and arising out of the cumbersome bureaucracy at the bank, along with the legal difficulty in raising the fixed rates of interest which

-
1. Sochaczewski calculates that the banking multiplier implicit in the Three Year Plan was 2.37, while that operating over the previous twelve months, consistently with the historical trend, was 2.58.
 2. Sochaczewski, p.242.

corresponded to them, meant that the planned limit on credit expansion of 3.5 million cruzeiros for the first quarter was overshoot five times over, reaching 16.7 million cruzeiros.

*

A number of important conclusions can be drawn from the evidence reviewed thus far. It is clear that in the first quarter of 1963 the private sector was not subject to a credit and monetary squeeze; on the contrary, it seemed reasonably capable of defending itself against increasingly frequent rises in wages and prices. It had assured itself of a relatively easy liquidity position by marking prices up before the Plan came into operation. The burden of short-run emergency therapies fell upon the lower salary and wage earners, despite an increase in the minimum wage intended to provide protection against the erosion of real wages.¹ This explains in part the willingness of the CNI and FIESP to accept the austerity programme.

It is of vital importance to note that in the face of frequent price adjustments and shrinking revenues, and even in the absence of increases in the salaries of civil servants over levels of the previous year, the Treasury deficit in the first quarter of the year was almost double the planned estimate, standing at Cr\$ 48.5 million, against Cr\$ 26 million. The main consequence of ineffective control over the banking system, given the commitment to stabilization, was that policy makers were forced to make drastic cuts in public spending, and significant reductions in the monetary operations of official institutions with the private sector.² This led not only to the tighter credit policy pursued in the second quarter, but also to the need to choose between cuts in current spending or investment at federal level.

The same problem had been faced before, by Clemente Mariani under Quadros in 1961, and again by Tancredo Neves and Brochado de Rocha, but for a number of reasons it had not provoked a cut of significant proportions in central

1. Nascimento, pp. 51-5.

2. Sochaczewski, p. 243.

government investments. Firstly, fiscal resources had not been exhausted, as they were in 1963: it was only at the end of 1962 that the central government investment reached 70 per cent of total tax revenues; secondly, basic central government investments were carried on by postponing payments to contractors or by shifting items of expenditure to the budget for the following year. It was only in 1963 that the dilemma which concerns us reached a critical point, even before the movement of public servants got under way at the beginning of April.

This is the background to the government decision to freeze the salaries of public servants and to seek to restructure their pay scale in order to protect the lower paid. It also explains the way in which this initiative was presented, an issue which puzzled contemporary observers and a number of objective and politically sensitive experts in administration.¹ If, however, the handling of the introduction of legislation and of 'negotiations' with the representatives of the sector affected produced a series of political faux pas on the part of the Treasury and the Head of the Military Household, this was in part because of the impact of a variable which was beyond the control of Brazilian policy makers.

A key element in a pattern of action which appeared to ignore the vested interests of one of the most powerful pressure groups in Brazil was the situation facing Dantas and Campos after the Washington negotiations of mid-March. The limited gains they made also bore directly upon a chain of reactions on the labour front to the erosion of real wages, which rapidly led to the involvement of other sectors of the radical left in a concerted campaign against the coalition in power. Some attention must therefore be paid to what Campos later dubbed "Dantas's impossible mission"²

1. Nascimento, pp. 83-7.

2. Campos, O Estado de São Paulo, 23 August 1974.

b) The Dantas - Bell Agreement

On the eve of his mission, Dantas was fully aware of the delicacy of his position. The economic performance in recent months was a political handicap in negotiations which he felt to be premature.¹ At the same time, immediate financial assistance was needed to meet foreign debt repayments falling due in view of the maturing of some of the borrowings made by Moreira Sales in 1961. Furtado calculated that by the end of 1962 debt repayments and profit remittances had accounted for US\$ 564 million, or 45 per cent of the value of exports. A moratorium was unthinkable, given the political and economic strategy pursued by the técnicos, and the plan had foreseen an inflow of foreign exchange of around US\$ 1.5 billion in foreign governmental aid and a further 300 million in direct foreign investment. This inflow was crucial if the meeting of external obligations was to be made compatible with the maintenance of imports at current levels and the implementation of specific investment projects.

Dantas also knew that the guidelines laid down to Moreira Sales two years earlier by official US spokesmen regarding economic policy had differed little from those proposed by the IMF: in addition to the introduction of realistic exchange rates and credit and monetary restrictions, and the improvement of tax receipts, the holding down of salaries in the public sector was seen as a crucial test of the commitment of the government and of Goulart himself to stabilization. Before Dantas left for Washington, he and Campos sought without success to discover the attitude of senior US officials to the gradualist approach of the Three Year Plan.² Nor could they establish the amount of financial assistance which might be released. This deliberate reticence weakened the position of the Brazilian negotiators even further, as they were unable to prepare counter-proposals on a realistic basis.³ The recent opening of the Kennedy and Johnson archives and the papers of Lincoln Gordon provide insights into the strategy of "limited and continuous co-operation" adopted by the United

1, Parker, pp. 35-44. This is the source for the information below.

2. ibid.

3. ibid.

States, and largely shaped by Gordon himself. The deliberate withholding of information was an instrument crucial to the designs of the State Department:

"we did not actually do any negotiating until ... Dantas came to Washington (because) we considered this part of the strategy: this would hold out the carrot and help influence things in the desired direction."¹

This strategy is all the more surprising in the light of the official views of Gordon and the State Department with regard to the TYP and the actions of Dantas:

"it was thought ... that the Three Year Plan ... and Dantas as Finance Minister, were the best bet in sight, that if the program were carried through it was a good basis for collaboration".²

The application of 'tactics of persuasion' by senior US officials was founded upon three considerations of a political nature, which also prompted the intervention of US financial and intelligence agencies in the October 1962 elections. These were embedded in the context of the Cuban missile crisis and the significance it gave to the alignment of the Latin American nations with the United States. They were Goulart's open tolerance of the Communists in the labour and peasant movements and in the government itself (according to a CIA report, his press secretary Raul Ryff had been a communist in his youth), the determination to protect the interests of US private capital (over the pending issues of the profit remittances law, AMFORP, and compensation in general for expropriation, as sought by ITT), and the need to separate Goulart from his left-wing allies; the State Department view was that "Goulart was not a leftist, but just an opportunist", but that at the same time he was "the chief of the Executive of a potential world power".⁴ Thus the making of financial assistance conditional upon the immediate application of the

1. Gordon, interview, cited in Parker, p.36.

2. ibid.

3. Parker, p.16.

4. ibid.

recommendations of the IMF was politically motivated. Further evidence is provided by Phyllis Parker, who shows that the high priority given to stabilization was resisted by most of Kennedy's economic advisers, of whom Galbraith was the most representative.¹ In political circles, the mood was reflected in the Gallup Poll of February 1963, and the attitude of General Lucius Clay, the Chairman of the Committee to Strengthen the Security of the Free World, and favoured the application of the doctrine of 'self help'.²

The arguments used in negotiation by Campos and Dantas, and the terms of the two letters from Goulart to Kennedy drafted by Dantas as a token of Goulart's commitment to the policies of his técnicos, suggest that Bell and Gordon in particular adopted inflexible attitudes in full knowledge of the risks the tactics involved posed for one of Kennedy's major goals, the preservation of democracy in Brazil, and for the sectors most strongly committed to stabilization. One of Goulart's letters expressed the hope that a conciliatory solution might be found for the AMFORP nationalization, while the other contained a major defence of his political position. Goulart invoked the principles of the Alliance for Progress regarding the right to self-determination in the establishment of the objectives of development, and insisted upon the need to tailor economic remedies to "the social environment" if "rebellion and ... dangerous forms of unrest" were to be avoided. He recalled the efficacy of the Marshall Plan, and presented the Three Year Plan as "the only option capable of harmonizing ... economic stabilization, preservation of social peace and democracy", and a model for other countries in similar positions to that of Brazil.³

1. ibid.

2. The Gallup Poll showed public discontent at the lack of discrimination by the Kennedy administration in the dispersal of foreign aid funds, seen as particularly irritating where the countries concerned had turned against the USA in international disputes; the Clay Report, thoroughly endorsed by Bell, a senior State Department official and the leading US negotiator, argued that financial assistance should be made conditional upon effective actual economic performance rather than effective proposed programmes. See Parker, p.34.

3. Both letters are reproduced in Parker, pp. 37-8.

Once engaged in negotiation, Dantas and Campos outlined the initial problems associated with the implementation of the government's austerity programme, given the cost-push pressures created by officially sponsored price increases, and urged that "even though the disbursements might be graduated and geared to performance ... the commitments should be generous and forthcoming".¹ Both were convinced that "a victory abroad and a demonstration of foreign confidence" were politically crucial in order to win support for the economic programme of the government, to neutralize the right and also contain the radical left.²

Campos advised Dantas not to sign the final agreement, which would virtually have meant declaring a moratorium, but in the end the Treasury Minister accepted the draconian demands of Gordon, Bell, and other State Department officials.³ He finally signed "with a very heavy hand", aware of the internal repercussions in Brazil. His decision to do so was based on the calculation, derived from long discussions with Campos, that a break with Washington and an austerity programme would impose the need for a model of "autarchic" development; this required a strong government, and the regime in Brazil, weak already, would be further weakened, as would their own positions, by such developments.⁴

Gordon thought that "Dantas had got a great deal",⁵ but other US officials recognized that the final terms were "bitter medicine". The USA was to provide stop-gap assistance amounting to US\$ 84 million, to be released immediately, and US\$ 314 million, to be released only for the fiscal year 1964, dependent upon Brazil's obtaining long-term assistance from the IMF, the World Bank, Western European countries, and Japan.⁶ The US\$ 314 million was also tied

1. ibid.

2. Campos, interviewed 17 February 1978.

3. Parker, pp. 38-40.

4. ibid.

5. ibid.

6. ibid.

to measures of performance, to be monitored by the IMF, among which the holding down of public service salaries was essential, along with the usual stipulations regarding the covering of the balance of payments deficit by means of export expansion, encouragement of private foreign investment, and the raising of fiscal revenues.

On this front, then, the gradualist approach to stabilization, for which the support of international creditors and financial agencies was crucial, was de facto rejected. This contributed to the erosion of the technical and political authority of its architects, and forced Dantas into a renewed effort at persuasion, through the media and the unions, and the formulation of a policy toward public sector salaries, backed by Goulart and by the Head of the Military Household, which sought to reconcile public spending cuts with the avoidance of major socially regressive consequences.

In short, the behaviour of senior US officials and of Ambassador Gordon reflected the inflexibility of the US government and the extent to which the process of politicization of economic issues had advanced among political actors situated outside the decision-making system in Brazil.

2.2 The politicization of economic issues: ad hoc responses to deep seated dilemmas.

Given the poor economic performance of the first three months of 1963, and the results of the Dantas-Bell agreement, stabilization-cum-growth remained the major policy goal of the técnicos in April and May. However, the patchy and ad hoc character of the policies implemented signalled the failure of the plan as a global political and economic strategy.

A convenient starting point for a reconstruction of the conjuncture of extreme uncertainty which characterized those months is a recognition of the contrast between the requisites for rational economic management and the nature of the short term policies implemented. More urgently than ever, rational economic management called for two types of entrepreneurial reforms to counter

inflation and recession: fiscal and tariff reforms to relieve pressure on the Treasury deficit and finance the rapid increase in government current expenditure without cutting further into a minimum investment programme, and the modernization of the financial system in order to reactivate current demand in the manufacturing sector, and in particular in durable consumer goods. As Sochaczewski notes, by 1963 business in general was caught in a precarious financial situation, due to the exhaustion of the reserved market and of inflation as a means of capitalization. The situation was aggravated by the fact that the industries were probably over-stocked, as a reaction to the inflation of previous years.¹

The growing durable consumer goods sector was by this stage unable to provide the long term finance for its sale as it had done hitherto. It therefore required the creation of a network of specialized financial institutions designed to provide long term finance for potential consumers, and thus extend its immediate market. In the terms of the Three Year Plan.

"As long as there is no financial organization at the side of the automobile industry which finances the vehicle-buyer in the long term, it will not be possible to increase production, for there will be no market for its total absorption at the prices which the enterprises must sell and which more and more restrict the number of buyers".

However, the centre of the political stage was occupied by the intense politicization of economic issues by sectors demanding a fuller share in the system, and the decision of the government to curb its current expenditures by freezing salaries and cutting the living standards of particular groups of civil servants. The energies of political actors were directed to these ends, while the ad hoc solutions adopted broadened the scope of opposition to the official programme, and worsened the economic situation.

It is against this background, reflected in the extent to which congressional debates in the period centred monotonously upon agrarian reform and "the question of civil service salaries", that the simultaneous disintegration

1. Sochaczewski, pp. 237-239. This is the source for the information below.

of the first ministry and the postponement of stabilization action must be seen.¹ A further complicating factor was the tailoring of ad hoc policies to the imminent arrival of the IMF mission, and its power to determine future levels of financial assistance from abroad.

Labour organizations, civil servants, and the business community all reacted negatively to the measures taken in April. The 30 per cent devaluation added to the cost-push pressures emanating from the removal of exchange subsidies, while the tighter money and credit policy introduced, coming on top of the decline in the rate of investment resulting from poor market prospects, further weakened current demand for industrial goods. The impact was first seen in declining orders from the commercial sector, as stocks had been kept high in the past as a protection against inflation.² At the same time the executive sent to Congress a bill setting differentiated ceilings for public service increases, to a maximum of 40 per cent for the lower salary earners, and DASP was instructed to prepare a thorough revision of the structure of pay scales.³

a) the labour front

The April devaluation gave added impetus to the anti-governmental offensive on the labour front; the radical left had always rejected the measure in principle as a response to foreign exchange crises. A document issued by the Communist Party in April,⁴ A Posição dos Comunistas frente às Reformas de Base, advanced an alternative strategy seen by its authors as "compatible with the structure of the present regime", but in fact little different from the Termo de Compromisso the FPN had produced earlier. It condemned devaluation as a concession to the demands of the IMF, and gave official confirmation to the party's opposition to the conflict-minimizing approach adopted to the basic reforms. Open PCB attacks upon the government and "the conciliatory sectors of the

1. Diário do Congresso Nacional, March - June 1963.

2. Sochaczewski, p.238.

3. Nascimento, pp. 51-8.

4. Full text of document in Carone, pp. 482-493.

nationalist and democratic front" was expressed as follows:

"The carrying out of the basic reforms constitutes a demand placed today at the centre of the political life of the country... However, the reforms proposed by the present government are not those actually demanded by the people. Their objective is to reconcile the interests of sectors of the bourgeoisie with the maintenance of the privileges of imperialism and latifundism, in an attempt to put off solutions to the problems indefinitely ... the forces of reaction are putting forward false reforms in an attempt to divide and deceive the forces of patriotism and democracy ... innocuous measures meant only to deceive the people, but enjoying the support of the conciliatory sectors of the nationalist and democratic front" (482-3).

The PCB document sanctioned the political developments on the labour front since the end of March, which had brought to the fore the dilemma facing the executive, discussed by Jurema, as a consequence of Goulart's dual role as head of state and leader of the ruling PSD-PTB coalition, and leader at the same time of a radicalised labour movement. The same dilemma was facing the Minister of Labour, although as the ideological mentor of o novo trabalhismo he did not act as "the Jango Goulart lacked", seeking to resolve conflicts where they arose. Almino's position had been weakened in the first three months of the year by the severe strains placed on his relations with the leaders of the CGT as a result of his policy of "cleaning up" the social security institutes, particularly as they apparently believed that administrative reform would limit their participation in the tripartite executive commissions of those bodies, and thus cut them off from substantial patronage resources.¹

The episodes known as the "battle of Guanabara", from the end of March to mid-April, involving the CGT and the leaders of the FPN and the UNE, signalled the point of no return in the process of erosion of the legitimacy of the party coalition in power. As economic issues became more highly politicized on the labour front, and constraints to rational economic management multiplied, the complete bankruptcy of traditional populism as a controlling or mobilizing force became apparent. We cannot reconstruct here the complex

1. For a detailed reconstruction of relations between the Ministry of Labour and the CGT in the period, see Erickson, pp. 77-90 and 131-4.

chain of events in its totality. In brief, the "battle of Guanabara" began with a series of street incidents in protest against increases in transport and public utility prices as a result of the corrective measures taken by the government. Behind the movement lay the threat most feared by Dantas - a general strike called by the CGT.¹ Opposition to the official economic policy and the demand for structural reforms reflected the strategy of dissensus adopted by union leaders and other sectors of the radical nationalist left, as did other positions adopted at the time. In giving support in April to a sergeants' rally demanding fuller participation in the political system, including the right to vote and stand for election, the CGT was not only taking an active political stance on the politically sensitive issue of military discipline: it was also seeking to broaden the base of its campaign against the TYP and its proponents. The wages of the sergeants were set by the Código de Vencimentos dos Militares (Military Pay Code), and were subject to erosion as a result of government attempts to reduce current spending. Two further political crises were superimposed upon this conflict, and both saw the CGT and the FPN playing a central role. One was political conflict between Lacerda, governor of Guanabara, and the government; the other was the military crisis involving the Minister of War and General Osvaldo Alves, the commanding general of the First Army, based in Rio de Janeiro, and identified with the radical left. Both crises had originated in differences between the CGT, FPN, and UNE on the one hand, and the government on the other over the nature and extent of official support for the inter-continental conference of solidarity with Cuba to be held in Guanabara in early April.

Although the test of strength between Goulart and the leaders of the CGT ended with a resolution of the crisis, thanks to the mediation of Brizola and the leaders of the FPN, it was clear from the statements of the more moderate leaders of the formally illegal body that Goulart had lost control

1. Marques Moreira, interviewed 6 December 1981.

of the union movement.¹ Clodomiro Riani declared the CGT independent from the government, and protested against the disciplinary sanctions imposed by the Minister of War upon the "general of the radical left", and proposed a cabinet reshuffle to bring Osvaldo himself into the Ministry in place of Kruel.

It was in these circumstances that the Minister of Labour switched to the strategy of the CGT, and began to deliver open attacks on the TYP and the IMF, and demand that the basic reforms be carried out immediately.² Almino suggested to Goulart a cabinet reshuffle based on the assumption that in the face of a radical left offensive Kruel, Dantas, and Furtado would have to go. This signalled the erosion of the alliance between politicians and técnicos in the cabinet.

By abandoning his concern for the vulnerability of the economy and opting for a reapproximation with the CGT, the Minister of Labour further weakened the capacity of the government to manage disequilibria by political means.

Although the official rupture between Goulart and Almino dates from mid-April, it was preceded by a struggle between the two behind the scenes which reflected the internal disruption of the PTB and the erratic tactics of the President. Seeking to restore the control dimension of traditional populism, Goulart had systematically delayed the process of legalization of the CGT by means of the Congressional bill. At the same time he responded to the threat posed by Almino's leadership of the labour organizations by seeking to prevent his making inroads in São Paulo, making some seventy nominations in favour of the Ivette Vargas group within the PTB there.³

The government was further weakened in the wake of the battle for Guanabara by the consequences of the techniques employed to handle the CGT. Between May and August, acting through his adviser on trade union issues,

1. Erickson, pp. 131-4.

2. Ibid.

3. Ibid., and Almino Afonso, interviewed 18 and 19 December 1978.

Crockatt de Sá, Goulart shifted government sponsorship from the CGT to the recently created inter-union body, the UST (União dos Sindicatos dos Trabalhadores). This action further exacerbated rivalries between the two aspirants to national leadership of the movement which were somewhat artificial: they agreed on the need for reforms, collaboration with the Communists, and the use of the strike in order to defend jobs and living standards, but divided over UST reluctance to put the union movement at the service of the partisan aims of the PCB.¹ The whole episode ending with the melancholy return of Goulart to the arms of the CGT, illustrated once again the contradictions of the legacy of Vargas and the symbiotic relationship between the state and the trade unions. Goulart needed labour support to make himself acceptable to other sectors of the political elite, and union leaders themselves were dependent upon government sponsorship, as they needed access to patronage resources to maintain control over their rank and file.

In the meantime, Gordon had been working to detach Goulart from his radical allies. He recounts that when meeting the President in mid-April, he sought to use persuasion and financial pressure in order to enforce the US veto on the continuation of Almino at the Ministry of Labour on the grounds that "he was not co-operating on wage policy" as he was exclusively concerned "to legalize the pro-communist CGT".² In early May State Department officials seemed to be having second thoughts on the official US position, and warned Kennedy of "the tremendous odds faced by Dantas"; a suggestion that Kennedy should seek to strengthen Goulart's hand by sending him a personal letter expressing "admiration for Goulart's stabilization and development programme, with complimentary references to Dantas" was not taken up though. The wait-and-see attitude prevailed.³

By late April, internal opposition to Dantas was extreme. The campaign

1. Erickson, pp. 134-7.

2. Parker, pp. 41-2.

3. ibid.

of opposition from the civilian and military functionaries was reaching a peak, while ideological polarization around the programme crystallized over Dantas's agreement to purchase AMFORP on the terms established between Goulart and Kennedy a year before. The price was US\$ 135 million, a quarter to be paid in dollars, and the rest in the form of re-investment in Brazil in non-utility holdings.¹ This initiative, which was highly favourable to AMFORP, was prompted by political rather than economic considerations, as part of a trade off to facilitate the gaining of long term financial assistance.² It resulted in opposition across the board, from Lacerda on the extreme right, Carvalho Pinto among the politicians of the centre and Levy from UDN, and the nationalist left,³ and Goulart characteristically dissociated himself from the agreement he himself had reached with Kennedy, leaving Dantas to shoulder the responsibility. Dantas confided to his advisers that "Goulart has no memory".

The final outcome of erosion of the legitimacy of the first presidential cabinet and the capacity of the PTB to govern, and in particular to manage the economy, was reflected in increasing hostility and inflexibility on the part of US officials, with Gordon alleging to Goulart that "relations between Brazil and the USA were characterized by a succession of broken promises".⁴ The imposition of increasingly tighter conditions on the Goulart government led two months later to a switch from government to government foreign aid to the adoption of Gordon's policy of selective official financial assistance to state governments and institutions aligned with the United States, and described as "islands of sanity".⁵ At the same time, Goulart's tactics were increasingly subjected to criticism in the non-opposition press, which turned,

1. ibid.

2. Interviews with José Gregori (5 January 1981) and Marques Moreira, 6 December 1981.

3. Castelo Branco, Vol. 1, pp. 173-9.

4. Parker, pp. 41-3.

5. ibid, pp. 91-100.

as it would again, to the propensity of the President to devote his energies to the destruction of rivals to his own supremacy.¹

b) the civil servants' movement and the reformist offensive of the government: the two final blows to the political strategy of the técnicos

The battle of Guanabara was immediately followed by two almost simultaneous but scarcely congruent government initiatives. On 17 April the bill setting a ceiling of 40 per cent on civil servants' salaries and thus implementing one of the least popular measures of its programme was put before Congress, but within weeks an agrarian reform bill along lines similar to those previously proposed by the PTB was produced, restoring the priority of antagonistic tasks over entrepreneurial reforms.

The two initiatives did have in common a distributive intent and minimum of scope for compromise. They were bound to multiply opposition to the government inside and outside Congress. Vulnerable in the wake of the battle of Guanabara and increasingly accident-prone, the government was unsurprisingly defeated on each with relative ease, and by the end of June the first presidential cabinet had collapsed.

The new initiative over agrarian reform will be considered only in relation to its impact on relations between the executive and legislature; it soured them considerably, making the passage of the civil servants' salaries bill even more problematic, before and after the collapse of the cabinet.² The leaders of the PSD had already allowed the passage of the Rural Workers' Statute, of course, and felt they could go no further in the direction of promoting more substantive changes aimed at the countryside without risking the further "lacerdization" of their political bases.³ In addition, the results of the

1. Castelo Branco, Vol. 1, pp. 179-223, and Vol. 2, 127-155.

2. Diário do Congresso Nacional, May-June 1963, and, for a detailed account of party reactions in Congress, Nascimento, pp. 71-83.

3. See note 1, p. 127-155.

UDN convention of 4 April had pushed the PSD further to the right, as it had brought a victory for the forces of the extreme right in that party, over the contest for the presidential candidacy between Lacerda and Magalhães Pinto. On the issues of agrarian and constitutional reform the PSD now moved from the wait-and-see attitude that had reflected Kubitschek's presidential ambitions to one of militant anti-reformism in Congress.¹ At the same time, the growing influence of the Brizola faction was shown by Goulart's speech at Núcleo Bandeirante on the outskirts of Brazilia, affirming once again the legitimacy of popular pressure on Congress and the executive in favour of basic reforms.² Thus the initiative on agrarian reform hastened the process of coalition of the conservative sectors of the PSD and the UDN.

In contrast, the majority congressional bloc formally committed to support the initiatives of the executive was in disarray, with the apathy of the PSD reflecting the reciprocal mistrust of the two parties created by Vargas. Tancredo Neves, the government leader in the Chamber, was unable to gain the support of his own party members, even those of his home state, for the most innocuous measures.³ In the Senate the blocking of official policies was even more notorious. Moura Andrade was a representative of the conservative wing of the PSD, and was ill disposed to Goulart and Almino, as they had denied him the premiership of the second parliamentary cabinet in the previous year. Even after the ceiling on civil service pay was raised to 70 per cent, the obstructionism of the Senate was to continue into July, and thus prolong the crisis.⁴

*

-
1. For Lacerda's speech at the convention see Carone, pp. 249-256; also Benevides, pp. 118-125. For a discussion of the effects of the UDN convention on PSD thinking on agrarian reform, see Camargo, "A Questão Agrária", pp. 202-221.
 2. Jornal do Brasil, 23 April 1963.
 3. Jurema, pp. 96-106.
 4. Diário do Congresso Nacional, 1 June - 14 July 1963, and Correio da Manhã, various issues.

The civil servants' movement provides a wealth of insights into the dilemmas facing the federal government, forced to choose between reducing its expenditure on its current or investment account as fiscal or tariff reform was impossible. It provides the strongest example of the manner in which the process of politicization of economic issues prevented the political management of the conflicts generated by the attempt to cut public spending. It provoked a temporary shelving of the deep ideological differences dividing the PSD and the PTB, and a concerted campaign against the TYP and the IMF, and a hardening of the attitudes of the leaderships of each party with the rejection of compromises offered by Dantas.

Aware of the unpopularity of the measure, Goulart had sought in early March to make personal contact with the leaders of civil servants, representatives of the military, and party political figures. At this stage prospects for a negotiated settlement looked good, particularly as the military were satisfied with the promise of better treatment for lower-ranking officers. The impression was confirmed by the statements of the Heads of the Civil and Military Households in favour of the Plan, and against the various pressures being brought to bear on them.¹

However, when the bill was sent to Congress by mid-April the government made two fatal errors. It made no attempt to renew discussions with the leaders of the movement, although inflation was rising and other wage settlements were averaging 60 per cent. The government could not afford to be flexible, in view of the need to hold down public sector salaries in order to maintain investments, and, after the Dantas-Bell agreements, to secure long term financial assistance from abroad. An avoidable and certainly more damaging tactical error consisted of the inclusion in the bill of two separate measures, the ceiling of 40 per cent and the redistribution of income within the sector, which constituted an attack upon the entrenched privileges of politically

1. Jornal do Brasil, 5 March 1963.

powerful sub-sectors of the Brazilian administrative system, whose influence had been under-estimated. This attempt at redistribution, contrasting with the conflict-minimizing approach to the basic reforms, proved a real casus belli. But it reflected Dantas' concern that the impact of the austerity programme should not be regressive, and was consistent with the image and traditions of the PTB. Hence the initial support it won from Goulart, as expressed in the memorandum to the Inter-ministerial Commission dated 5 March.

The government was seeking to correct three anomalies in the administrative system.¹ Firstly, the military were paid through special norms contained in the Código dos Vencimentos dos Militares, and as a result all ranks from general to sergeant enjoyed special treatment, receiving a basic salary and a variable element on top, in most cases, equivalent to twice the nominal salary. This was never mentioned when demands were advanced from this sector, as the value of the fixed portion was eroded. Secondly, the most privileged group in the civil service, the officials of the policy-making agency charged with the construction and expansion of Brasilia NOVACAP, earned substantially more than the President, an anomaly which dated from the Kubitschek period. Thirdly, the functionaries in the multiple agencies under the jurisdiction of the Treasury - the fazendários, as they were known - received in addition to their basic salaries a fixed proportion of the fiscal revenues of the government, which doubled their real income, and benefited everyone from senior advisers and officials down to the liftman, who, according to Nascimento, earned more on occasions than the DASP técnicos, who were on fixed salaries. The executive bill offered an increase in the basic salary only of 40 per cent, but introduced a range of provisions intended to bring down the ratio of highest to lowest salaries, then standing at eighteen to one. The lowest paid were to receive increases ranging from 50 to 55 per cent, while the most privileged were offered from 20 per cent to nothing at all, and the functionaries of NOVOCAP

1. Nascimento, op.cit, pp. 51-87.

were given a salary cut. At the same time the executive instructed DASP to propose a revised federal salary scale, thus establishing its determination to make permanent rather temporary the correction of the socially regressive aspects of public sector remuneration. The exercise, however praiseworthy, constituted an antagonistic task which further multiplied nuclei of opposition to the government, and constituted a faux pas on the part of the Treasury Minister and his advisers. By the same token, the fact that Dantas insisted repeatedly to the press throughout April that the 40 per cent ceiling was not open to negotiation did little to dissipate the hostility building up toward the TYP and the United States.¹

The public servants' movement was demanding a ceiling of 70 per cent, a thirteenth salary, and a 'family' salary, and the campaign which developed through to the last days of July made the political management of the issues involved virtually impossible, despite the manouverings of the government throughout May. The government was facing a national movement, highly organized, and with access to multiple major channels of access to the political system. It had one of the most powerful lobbies in Congress, through the PTB and the FPN, and enjoyed in addition the cooperation of the UDN and the PSD, as well as the support of its professional associations, the Associação de Sargentos e Marinheiros, the Associação de Oficiais, and the Associações de Servidores Públicos (co-ordinated through the Confederação Nacional de Servidores), and the Military, Naval and Aeronautical Clubs.

However, the most striking feature of the movement, in its civil and military wings, was the emergence of unbreakable unity between the most and least privileged sectors in the offensive against the IMF, the TYP, and the government; in the case of the armed forces this was particularly noteworthy, in view of the exacerbation of inter-rank tensions over the crisis provoked by Osvino and the Minister of War in April. The campaign brought the generals

1. Visão, 12 April 1963.

of the Cruzada Democrática and the sergeants of the nationalist left into action together. At the end of March the sergeants' leader, Garcia, a PTB deputy and member of the FPN, announced his willingness to use inter-party channels to "torpedo the Three Year Plan and the IMF".¹ This initiative was very similar to that of the leaders of the Cruzada Democrática, who at the end of April launched a manifesto to the nation and the strident appeal to Congress.² The process of convergence between officers and lower ranks reached its highest point with the release on 16 May of a DASP proposal for parity of treatment between civilian and military employees of the state. The sergeants opposed it vigorously, and a massive assembly of 2,000 officers passed a motion (with the solidarity with the Sergeants' Association), against the TYP and U.S. pressures.³

Similary, the public servants won the support of the CGT, which in the second half of April sent a memorandum to Congress siding with them against the executive. It was ironic that the CGT memorandum made no distinction between the lowest paid and the ultra-privileged, whereas the Head of the Military Household had earlier forwarded a memorandum to the inter-ministerial commission in defence of the standard of living of the barnabés, or the poorest paid among the public servants.⁴

Civil and military opponents of the government alike refused to acknowledge the financial difficulties facing the government, and rejected all attempted compromises. Dantas offered a ceiling of 60 per cent, to be financed by a compulsory loan, but the Confederação Nacional de Servidores Públicos rejected it, demanding 70 per cent and declining the proposal as "the government was giving with one hand and taking away with the other".⁵ When the executive

1. Última Hora, 26 March 1963, and Diário do Congresso Nacional, March-June 1963.

2. Correio da Manhã, 24 April 1963.

3. Nascimento, pp. 65-71.

4. ibid.

5. ibid.

virtually capitulated and sent a substitute bill to Congress on 22 May, providing for a ceiling of 70 per cent, withdrawing parity between civilian and military employees, and keeping to the principle of compulsory loans to the government, Congress passed it only to see it publicly rejected by the officers. The presidents of the three service clubs turned it down on the grounds that "it did not satisfy the demands of the officers of the Armed Forces".¹ The proposal would have more than doubled additional expenditure to be devoted to salaries in the plan, (280. million cruzeiros against the 120 million cruzeiros initial forecast).

The developments examined thus far are sufficiently illustrative of the protest movement which continued into July. First, it had proved politically impossible to reduce current spending as planned, or to introduce tariff and fiscal reforms, and as a result it was investment that suffered. Secondly, the public servants' movement revealed the precariousness of the position of the técnicos nacionalistas once the political management of conflict had failed. Their weakness brought into the open the exhaustion of the system of values that had underpinned their ideology, for they had been unable to put their view of themselves as "técnicos in ends as well as in means" across to the sectors left behind in the previous phase of accelerated growth, despite their attempts to reduce social and economic inequality while still pursuing goals forced upon them by economic necessity. Thirdly, the public servants' movement further widened the breach within the executive between the Ministers of Planning and the Treasury on the one hand, and the Minister of Labour on the other.

A parallel can be drawn here with the final years of the last Vargas presidency, and the conflicting pressures represented by the Ministers of Labour (Goulart) and the Treasury. Vargas too was faced with similar conditions on the external front - the prospect of a foreign exchange crisis, IMF

1. Ultima Hora, 28 May 1963.

supervision, and the withdrawal of good will on the part of U.S. officials. In addition, one of the detonators of the crisis which led to his deposition was the Manifesto dos Coronéis, the product of a campaign in favour of the preservation of salary differentials. (see chapter II).

In the case of Goulart, the equivalent to the Manifesto dos Coronéis came six weeks after the fall of the ministry, when the military, dissatisfied with the holding up in the Senate with the bill passed by Congress, came out against the government. On 4 July officers from the three services circulated an ultimatum in which 14 July was set as the deadline and "the day of reckoning" as it drew a threatening analogy between "the fall of the Bastille and the fall of Brasilia".¹ It came in the midst of a military crisis arising out of dissatisfaction with the economic policy of the government. A meeting of officers at the Clube Militar on 6 July to discuss the tactics to be adopted over the question of pay had been marked by booing and insults directed at President Goulart, and the imprisonment of the President of the Club, General Magessi, on the orders of the new Minister of War, General Jair Dantas Ribeiro, had prompted a series of demonstrations of solidarity with the officer punished, and further imprisonments.² This challenge to the legalist wing of the army signalled a definite turning point in the erosion of the military centre which had backed Goulart over the plebiscite.

2.3 The new ministry and the performance of the economy in 1963.

The composition of the new ministry, sworn in at the end of June, reflected a bid by Goulart to re-establish a stabilizing political centre, and respond to the pressures from the business community, dissatisfied with the tighter money and credit policy of previous months. Goulart responded to the defeat of his agrarian reform bill at the end of May by making Jurema (PSD) Minister of Justice, in a bid to win the PSD back and isolate the UDN. Jurema had the

1. Nascimento, op.cit, pp. 70-78.

2. O Estado de São Paulo, 6 July 1963.

contacts in Congress, even among the opposition, that would allow him to put the shaky governing coalition together again and he was seen as a key figure in the implementation of a new strategy of consensus which would centre on a negotiated solution to the agrarian reform issue. His skill at appraising the political balance was demonstrated in chapter VI above. The new Treasury minister was Carvalho Pinto of the PDC, a man whose technical competence and experience as a professor of Economics and an efficient administrator of the state of São Paulo, along with his contacts with the business community of that state, gave him undisputed authority, even in the eyes of the UDN. He had a further advantage, as a member of the 'reformist' wing of state governors, with a record of having implemented the first measures of agrarian reform in his state, as we have seen in the previous chapter.

The new ministry alienated the nationalist left, which had hoped to make some gains, and particularly wished to see Brizola at the Treasury. Despite Goulart's efforts, the disaffection of the radical nationalist left and the irreversible radicalization of the bases of the PSD, which severely limited the range of options open to Jurema, meant that Jurema himself apart the new cabinet was totally unrepresentative of the most important party political forces in Congress and on the labour front. With the prospect of a new political understanding being reached between the executive and the union movement now negligible, Goulart and his colleagues were more vulnerable than ever. As a result, it again proved impossible to return to sound economic management, despite Carvalho Pinto's efforts to revive elements of the TYP such as the containment of government expenditure and the securing of a stand-by credit from the IMF.¹

The inclusion of Carvalho Pinto in the ministry had been a bid to win back business confidence in the wake of the tighter money and credit policies between late March and May. The deficit in the second quarter had been kept

1. Interview with Carvalho Pinto, 15 and 16 January 1979.

within the prescribed bounds, largely thanks to the postponement of investments, and the carrying forward of the 70 per cent increase for public servants in the third quarter, and loans from the Banco do Brasil to the private sector had only slightly overshoot their target, reaching 46.5 million cruzeiros against the 34.3 million planned. The temporary recourse to tight money and credit policies had alienated business, and the commercial sector in particular. Despite the alarmist mutterings of the CNI journal, however, on the subject of "the risk of a stabilization crisis", the official support of the industrialists for the government was reiterated by CNI técnicos and by the President of FIESP.¹ In view of the liquidity crisis, however, the CNI técnicos urged, as they had in 1959, that wages should be cut to keep the plan on course. The conclusion of a leading article published in April clearly foreshadowed support for the solution that would be adopted after 1964:

"We obviously should not expect the Minister of the Treasury to make a public declaration that he intends to relax the limits on credit in the Plan ... it would be an error as it would threaten the psychological climate of price containment which has been so hard won... He could however move toward higher ceilings by providing greater credit facilities to the sectors which have proved most sensitive to the policy of restriction.

... the measures required by price-containment-with-development would stand more chance of success if they were extended to all wage-earning categories and not just to public servants. Thus the readjustment of wages could be made at a level 10 per cent below the increase in the cost of living. The losses would soon be made up if the rise in the cost of living in 1963 was from 30 to 35 per cent, rather than from 50 to 60 per cent as in the previous year".²

The position of the técnicos of the CNI reflected the existence of an alternative economic strategy, already being developed behind the scenes by IPES and entrepreneurs in the most modern sector of the economy of São Paulo.³

1. Desenvolvimento e Conjuntura, April 1963, pp. 3-4.

2. ibid., emphasis ours.

3. It is interesting to note that in fact it was the alternative economic strategy to the Three Year Plan put forward at this stage by IPES which prevailed after 1964. We are indebted to Antonieta Leopoldi for drawing our attention to this point.

It also bore witness to the problems the government faced from the business sector, as far as political management of the economy was concerned.

In the circumstances, the resumption of inflationary governmental behaviour seemed the course of least resistance, given the loss of support Goulart had suffered since the beginning of the year.

The lack of criticism of the government from business during the second half of 1963 is explained by the abandonment of the policy of squeezing public spending, and the easing of credit restrictions for the private sector through the Banco do Brasil. The money supply expanded by 66 per cent, against 34 per cent planned, with the treasury deficit for the year reaching Cr\$ 504.7 million against Cr\$ 300 million, planned, and bank operations with the private sector running out at Cr\$ 256.4 million, against Cr\$ 116.7 million planned. However, the easier liquidity position proved insufficient to spark off recovery. This was because real demand was inadequate, as was acknowledged by the técnicos of the CNI toward the end of the year, when they sought to explain the poor performance of the private sector in the second half of the year in terms of political instability and the crisis in current demand.¹ Economic recovery depended upon the creation of a system of financial organizations to expand demand for the products of the leading sector of the economy, that of consumer durables, but it is also probable that political instability since 1961 had prompted the postponement of investment decisions throughout the industrial sector. In addition, the fact that real minimum wages had stagnated in 1959-1960, and thereafter been squeezed downward by inflation, reaching a level in 1963 15 per cent below that of 1955, placed serious constraints on the expansion of demand for popular consumption goods.

The sudden drop in central government investment in 1963, combined with the swift collapse of foreign investment, played a significant role in deepening the recession induced by the overall decline in the rate of private and public

1. See Sochaczewski, pp. 184-7. This is the source of the information below.

investment since 1961.¹

The Treasury deficit of 1963 was caused by the expansion of current expenditure, the most substantial items being the growing subsidies to public transport enterprises, and the public sector wage bill. At the same time revenues were further squeezed as a result of the failure to attract foreign capital to finance the balance of payments deficit of US\$ 300 million, and the consequent recourse to swap operations, representing an additional drain on Treasury resources. In addition, the returns from import deposits proved to have been over-estimated.

In 1959 the resurgence of inflation had been compensated by achieving high levels of investment. In 1963 it came in combination with a further fall in investment, still greater than that which had occurred in 1962. In constant cruzeiros (1952 values), capital formation by central government fell from Cr\$ 7.3 million in 1961 to 7.0 million in 1962. and 4.6 million in 1963. The 1961 figure had represented an increase of 16.2 per cent over the previous year: that of 1963 represented a fall of one third over 1962, with multiplier effects through the sector of capital goods, basic inputs and construction. This played a crucial role in the recession between 1963-66, when the annual average rate of growth was 2.7 per cent; a period in which real income per capita stagnated.¹ The impact of political instability and the profit remittances law are reflected by the fact that in 1963 direct foreign investment fell to only \$ 31m, while capital outflows totalled \$ 145m. This produced the first negative balance on capital account since 1950.² Despite the government's attempt at a fiscal boost this was the worse and most prolonged recession in Brazil since the thirties.

Conclusion

As we have seen in this chapter and the last, the crucial characteristic

1. ibid.

2. ibid.

of the conjuncture of economic uncertainty between 1961 and 1963 was that the downward trend in the economic cycle coincided with the exhaustion of the political cohesion that had been generated by the process of accelerated development. As recession set in and the traditional methods of financing capital accumulation through inflation, over-valuation, and reliance on foreign borrowing began to fail, entrepreneurial reforms (fiscal, financial and administrative) were a *sine qua non* for promoting a renewed burst of capital accumulation independent of inflation. At the same time the legitimation of the ruling coalition came to depend upon the extent and nature of measures aimed at broadening the scope of Brazilian democracy by meeting the renewed demands of the sectors left behind during the long burst of capital accumulation or simply, excluded from the "populist pact": i.e. depended upon the implementation of redistributive reforms. In this sense, Hirschman's argument is correct. However, economic necessity imposed another set of reforms which were milder in their redistributive impact and hence in their destabilizing consequences, but were essential if capital accumulation were to be continued despite inflation and the growing foreign debt.

It is against this background of economic uncertainty that the dynamic and interaction of political constraints to the implementation of effective stabilization-cum-growth policies in 1963 must be assessed. Firstly, the limitations imposed by the existing institutional framework, of which Congress was the central element, narrowed the range of alternatives open to policy-makers, obliging them to have exclusive recourse to conventional therapies. By the same token, in the absence of entrepreneurial reforms the exclusive recourse to short-run emergency therapies not only had counter-productive effects in economic terms, but also deepened the process of politicization of economic issues already in course since 1960-61.

The second type of political constraint to economic policy making arose out of the pre-eminence acquired by antagonistic tasks, in the face of the exhaustion of the control dimension of populism and of the process of

redistribution of political resources within the party system. With a new social compact unobtainable, it was impossible to achieve the political management of disequilibria on the terms and the timescale proposed by the técnicos nacionalistas.

In summary, then, given the characteristics of the Brazilian political system the postponement of the coherent economic management of disequilibria from August-September 1963 onward can be attributed to the combined action of two types of centrifugal forces which intensified in the first half of the year. The first stemmed from the institutional deadlock between the executive and the legislature over the governmental offensive in favour of agrarian reform, which led to the disruption of the party political system constructed by Vargas. The second was the dispersion of power within the decision-making system, located primarily within the executive branch. This highlighted the contradictions inherent in the symbiotic relationship between the state and organized social movements, and the erosion of the civil and military 'centre'.

In conclusion, while we have allocated a minor explanatory role to technically avoidable errors, in comparison with the weakening of the Goulart government, it is clear that the system of values underlying the strategy proposed by the técnicos nacionalistas constituted an additional constraint to economic management. The reforms proposed, particularly fiscal and agrarian reform and the restructuring of the pay scale in the civil service, were intended to place limits upon a phenomenon which the técnicos saw as a flaw in the Brazilian social system: superfluous consumption. This contrasted with the pattern of capital accumulation bequeathed by Kubitschek, the continuity of which depended upon the expansion of the market for consumer durables. The economic "efficiency" of the post-1964 regime was made possible (inter alia) by the resort to policies which ensured the enlargement and the "deepening" of the relevant market, whose redistributive scope was socially regressive. The economic performance in this case was owed not only to the reconcentration of political resources in the hands of the emerging civil-

military technocracy, but also to the fact that its architects were uninhibited by an ideological constraint that the técnicos nacionalistas had found compelling: the commitment to the more urgent policy goal of broadening the narrow scope of Brazilian democracy. In this sense, 1964 represented not only the end of a model of development based upon class collaboration and supported by the PSD-PTB alliance, but also the breakdown of a political culture.

*

Conclusion

Our analysis of the process of policy formation in Brazil during its second experiment with democracy reaches an end at a moment when the struggle for control of the state was the major issue at stake. The unmanageability of acute disequilibria and of recession in 1963 was a decisive factor behind the breakdown of the democratic regime in March 1964. As we have attempted to show, the vicissitudes of economic management in the disequilibrium phase from 1961 to 1963 cannot be attributed, as Hirschman suggests, to the lack of a coherent economic strategy for tackling the surface causes of disequilibria on the part of the leading Brazilian structuralists. As we have seen, the "overdose of problems" of which Hirschman speaks cannot be attributed to a method of problem-solving characteristic to the adepts of that school of thought - the method of 'escalating difficulties' - nor to the absence of policy guidelines relating to the correction of conjunctural problems before deeper structures are attacked.

The contrast between intentions and results in economic policy making between 1961 and 1963 was interpreted here as the result of the combined action of institutional constraints to economic management and the extremely unstable political context. An intensive process of redistribution of political resources within and outside the decision-making system was reflected in the disruption of the existing party system, the breakdown of the corresponding political channels, and the uncontrollable politicization of vital economic issues. This process of politicization, to be observed at the level of a subsector of the ruling elite and also among sectors hitherto excluded from decision-making, or affected by the reformist offensive of the executive, is dated here from the time of the Quadros government. This was the political framework within which any proponents of stabilization-cum-growth policies would have to act, regardless of the economic ideology to which they might subscribe. By the same token, the resources for the political management of the economy

through the achievement of a degree of compatibility between economic necessity and the legitimation of a strategy agreed between rulers and ruled were wasted, if not entirely exhausted. Whichever side had emerged victorious, a sufficient reconcentration of political power to permit the imposition of new rules of social discipline, under military tutelage after October, 1963, seemed a precondition if coherent economic management was to be restored.¹

As is well known, one of the achievements of the post-1964 regime presided over by a new political coalition dominated by civilian and military bureaucrats was the elimination of the two major areas of economic uncertainty, soaring price inflation and recurrent foreign exchange crises, as a preliminary to a renewed burst of capital accumulation from 1968 to 1974. Economic efficiency and sustained growth, the self-appointed tasks of the new rulers, became effective mechanisms for the legitimation of the new regime. A brief reference to the nature and scope of the policies implemented in the phase of 'economic reconstruction' under Planning Minister Roberto Campos is a convenient starting point for a consideration of some of the issues which we set out to explore in this investigation, particularly if Hirschman's theses concerning changing rules of politics in a number of Latin American countries are to be reassessed in the light of the Brazilian experience. In this context, we shall explain why and in what sense we have favoured a political approach to economic management in 'democratic' Brazil and to regime change.

To judge by the outline solutions contained in the Plano de Ação Econômica do Governo (PAEG) and the package of macro-Keynesian policies actually implemented between 1964 and 1967, it is possible to speak, as Hirschman does, of orthodox economic policies applied in the period. These were severe wage restraint, a squeeze on the budget, and associated monetary and credit restraint, combined with effective exchange rate action aimed at expanding and diversifying

1. At the end of September Goulart and Jurema sent to Congress a request for a state of siege, which was withdrawn two days later. A possible bonapartist coup was frustrated by the protests of Dantas and the united hostility of Congress, from extreme right to radical nationalist left to the golpismo of the President.

exports.¹ In combination with new interpretations of legislation on foreign capital, this meant the inauguration of a new mode of insertion into the international economic system characterized by 'openness'. The more intensive use of monetary weapons, depending in institutional terms upon the great coordination of monetary policy through the creation of a central bank, was observed in the introduction of monetary correction for public and private debt instruments. This was vital to ensure the flow of voluntary savings in the desired direction, toward the financing of a growing share of government current expenditure, and of public civil construction programmes in infrastructure and housing, and the boosting of demand for consumer durables through the system of hire-purchase credit.²

However, the most striking feature of economic policy in those years was intensive reform activity aimed at removing the major institutional bottlenecks which had severely constrained economic management once the traditional mechanisms of capital accumulation - inflation-cum-overvaluation, import controls, and reliance on direct foreign investment - had ceased to be functional. The long overdue package of tariff, administrative, fiscal, and financial entrepreneurial reforms was an essential factor in Brazil's economic performance in the late 1960s and early 1970s. In the process the state took on a leading role in the process of policy formation, playing an active part in the redistribution of resources from wages to profits, and within and between economic sectors, thus modifying profoundly the balance of economic power. It also exerted a powerful dislodgement effect upon the system of strategic economic policy-making agencies; the implementation of a set of political and

-
1. Effective exchange action designates here the combination of successive sharp devaluations with packages of fiscal incentives aimed at altering entrepreneurial behaviour hitherto oriented toward the internal market.
 2. For an analysis of this point, see Sochackzewski, *op. cit.*; John Wells, *op. cit.*, and Lourdes Sola, "Inflation in Brazil and Monetary Correction, 1945-1974", (mimeo, Cambridge, 1975)

institutional reforms was essential if the new economic strategy was to be made politically viable. The characterization of policy in the period as orthodox by Hirschman, or as neo-liberal by others, is of limited analytical value, in view of the emphasis on reform, and the manner in which monetary correction was applied. For its effect to be neutral as far as the distribution of real resources was concerned, a single standard of measurement of all values to be corrected would have been required, but in fact it became a major economic policy instrument, allowing the state to spread the effects of inflation and the burden of stabilization selectively.¹ Items such as the minimum wage, the exchange rate, and the various public and private debt instruments received different treatment, and the overall impact was further affected by associated fiscal incentives.

From 1964 onward one can speak of a new type of 'intervention syndrome' in that the state rather than the market was established as the agent and regulator of the process of distribution of penalties and privileges associated with stabilization and capital accumulation, but no longer worked through the mechanisms established in the 1950s - inflation-cum-overvaluation, import controls, and over-reliance on external financing. Despite brief episodes of redistribution in favour of wages, as in 1953, the state in the 1950s took positive action to shift resources from exports to industry and from wages to profits, as we saw in Chapter II.

Given these circumstances, and the adoption by the state after 1964 of a reform function which went beyond a purely entrepreneurial initiative, it is possible to establish a first element of continuity in the discontinuity represented by the political and economic model inaugurated with the fall of Goulart.

An explanation should be sought in the constraints imposed by economic necessity on policy makers of differing persuasions in the phases of disequilibrium from 1961 to 1963 and economic reconstruction after 1964. The need for the strengthening of the state as the leading agent of entrepreneurial

1. Sola, op. cit., pp. 15-28.

reforms related to the specific structure of the economic system. The consumption-led model of growth launched under Kubitschek by the Campo-Lopes group in the late 1950s was based on the domestic production of consumer durables, basic inputs, and a substantial range of capital goods well in excess of existing demand represented by a 'reserved' market, and reflected a pattern of capital accumulation which was fairly advanced by Latin American standards.¹ The determinant mechanisms of cyclical fluctuations were largely endogenously given, but at the same time highly vulnerable to the responsiveness of foreign investors.² As we saw in chapters V and VII, there were three types of institutional constraints to anticyclical action beyond the traditional means of financing capital accumulation. The first was the comparatively inflexible tax system. The second was the lack of a modern capital market to provide a non-inflationary flow of resources to the public and private sectors, and boost demand for durables. The third was the existence of a decentralized system of policy making agencies subjected to contradictory pressures which severely constrained the coordination and execution of coherent monetary and credit policies.

The elimination of these deficiencies would intensify the regressive redistributive effects of the anti-inflationary macro-Keynesian policies proper.

Now, given the structure and dynamic of the party system, the composition of interests represented in Congress, and with time the loss of efficacy of populism as a means of control as the demand for progressive redistributive reforms grew, it follows that effective stabilization action after the disequilibrium phase called for the concentration of power, whatever the

-
1. By 1964 approximately 50 per cent of capital goods were produced internally.
 2. Of course, a theoretical implication of such an approach would be that the concept of import substitution should be qualified in order to account for the modality of industrialization implemented in the late 1950s. See J.M. Cardoso de Mello, "O Capitalismo Tardio" (Tese de Doutorado, Campinas, 1974), and Tavares, "Acumulação de Capital e Industrialização no Brasil", pp. 20-100, and 200-230.

victorious economic strategy and the social aims and political scopes of reform.

It is undeniable, however, that the intrinsic exigencies of the consumption-led model of growth through which the entrepreneurial function had been performed since the late 1950s by the combined action of state, foreign, and private national capital, highlighted the inadequacy of the economic and political ideology of the structuralists. It did not cater for the new realities. If an 'overdose of ideology' existed, it should not be sought, as it is by Hirschman, in a method of problem solving in which antagonistic tasks prevailed over an incrementalist approach to economic management. If the conflict minimizing approach of Brazilian structuralists in the early 1960s had a utopian ring, it was because political commitments, systems of alliances and values precluded the adoption of an economic strategy geared to fitting the demand profile to the consumption-biased structure of production bequeathed by Kubitschek; as developments after 1964 revealed this entailed an intensification of the process of income concentration.

* * * *

Hirschman's approach to radical change in the 'political rules' is based on the assumption of a radical discontinuity between the policies applied before and after the breakdown of the democratic regime, and between the economic ideologies of each regime. This assumption stems from the conviction that an account has to be given of the characteristic inability of the popular regimes which preceded the bureaucratic authoritarian regimes of today to bow to 'imperative economic deferenda' and give due weight to the intrinsic requirements dictated by the structure and manner of functioning of the economic system once traditional schemes to finance import substituting industrialization had ceased to be functional. In his search for general explanations for this phenomenon, Hirschman establishes a relationship of direct causality between the role and function of the intellectual elite, and fluctuations in economic activity. On this view, the economic ideology of ECLA and the changing behaviour of its exponents in phases of expansion or contraction of economic activity, in accordance with the performance of the entrepreneurial or distributive

function respectively, provides a meaningful link between the realm of ideology and more structural factors. According to Hirschman, once the disequilibrium phase set in, the intellectual leaders of the structuralists placed the greatest emphasis on its hidden causes - the land tenure system and external dependence - and thus shared the responsibility for the prominence given to antagonistic tasks; by switching their allegiance to the sectors left behind in the growth phase, and opting for redistributive reform, they helped to rob the ruling coalition of essential mechanisms which reconciled economic necessity and political stability.

We have argued that the degree of discontinuity before and after 1964 was not as great as this argument suggests. The term técnicos desenvolvimentistas, applied to the group alleged to have provided ideological backing for the performance of the entrepreneurial function in the late 1950s, is of little analytical value, as it fails to make the pertinent political and analytical distinction between cosmopolitas and nacionalistas. In Brazil, under a common banner of étatisme and dirigisme, these sub-groups put forward rival projects for long-run capitalist development in Brazil, and from the early 1950s onward were attached to different sets of political alliances, favouring different patterns of political action. Contrary to Hirschman's view, nacional-desenvolvimentismo, a hybrid ideology, was not a sudden creation of the Kubitschek years; the two strains which converged in those years had been fully developed during the last years of the Vargas period, and the nacionalistas had put forward in 1953 a substantial agrarian reform project, which was to be revived by Goulart in 1962.

Another set of reasons which qualifies the hypothesis of radical discontinuity is found in the fact that the major architects of the Target Plan became in 1964 the leading proponents of the new policy guidelines, as members of the new coalition in power. The question this raises is why it was that only in 1964 did macro-economic rationality prevail over the political and ideological calculations which had constrained coherent management since 1959.

Roberto Campos and the desenvolvimentista-cosmopolitas had been the chief architects of the model of associated development launched in the late 1950s, and seemed the most suitable agents to carry the necessary adjustments through. If macro-economic rationality prevailed only in 1964, it was because its implementation was unconstrained by 1) trade union opposition, 2) electoral calculation, and the images and traditions of long-established parties 3) effective veto power in Congress and 4) the system of values and political commitments which made it impossible for the nacio alistas to adopt socially regressive policies. Even in the case of the cosmopolitas, one cannot speak of a sudden change of camps though. A shift of emphasis to the systems of alliances into which the técnicos were inserted from the early 1950s and to the political context of the Target Plan reveals further qualifications to the Hirschman thesis. At that time, the cosmopolitas were forced to defer to other exigencies, which they could afford to ignore under the bureaucratic authoritarian regime. These were the considerations imposed by the structure and dynamic of the Brazilian political system, and the prevailing social compact. The political strategy of consensus adopted by Kubitschek imposed three types of tactics which seemed to contradict the most elementary rules dictated by rational economic management. Firstly, the Campos-Lopes group circumvented the veto power of Congress by means of a cost-increasing administrative reform, a strategy which insulated the técnicos from the pressures emanating from the party system and temporarily enhanced the efficiency of the decision-making system. Secondly, the architects of the Target Plan put the allocation of some minor investment funds into the hands of Congress, an economically 'wasteful' but politically rational decision which assured the support of Congress and of the regional oligarchies for the project of intensive industrialization and structural diversification. Thirdly, to judge from the comparatively flexible wage policy of the 1958 stabilization plan, Campos and Lopes bowed to the political obstacles to severe wage restraint inherent in the line of class conciliation which held together the ruling party coalition. In short, the

técnicos sought to reconcile the pressing needs of the economy with the maintenance of political stability.

Similarly, the conflict minimizing approach of the técnicos estruturalistas toward redistributive reforms such as those in the Three Year Plan reflected an attempt to reconcile three conflicting goals: the management of acute disequilibria, the broadening of the scope of democracy in Brazil, and political stability.

Accounts which assume a sharp break between pre- and post- 1964 policy makers tend to stress reluctance before 1964 to persevere with economically necessary measure once the acute strains of disequilibrium and recession began to manifest themselves, and to use the term 'policy-makers' for all actors within the decision-making system, without taking account of the different approaches of politicians and técnicos. This leads to a tendency to emphasize faulty economic policies, and attribute them to an inadequate perception of economic necessities, caused by ideological blinkers. Policy formation during the democratic regime is seen as a continuous and sequential process, at least until the disequilibrium phase, with the inflation-cum-overvaluation scheme combined with strict import controls at the service of a single political and economic strategy, in a period in which planning and industrialization are thought to have been sufficiently unifying tasks. A still more important implication is that the state is treated as a residual category, despite its role in directing the distribution of resources through exchange rate policy and the manipulation of a socially acceptable rate of inflation. It then becomes necessary to identify sectors of the social and political elite who alternate in the performance of entrepreneurial and redistributive functions. In short, the link between the ideological realm and structural factors is sought in the changing pattern of behaviour and system of values of key social and economic agents, responding to fluctuations in economic activity. Hirschman's response to economistic interpretations of changes in the 'political rules' can be classed as an 'economics-cum-sociology' approach.

If one shifts the focus, however, on the assumption that despite their political differences the técnicos shared some common views on the working of the economic system, and operated in accordance with calculations differing from those made by the politicians, as a result of their distinct place and function in the political system, the contrast between their respective diagnoses and prescriptions to the vital issues confronting them appears less obvious.

In order to account for the contrast between intentions and results in economic policy making, it becomes necessary to take account of the political imperatives to which these actors had to respond, their nature depending upon the structure and dynamics of the political system during the relevant democratic regimes.

Of course, the incorporation of these 'political deferenda' restricts the scope for generalization, as the popular governments of Brazil, Chile, and Argentina faced different political constraints to economic management.

A major implication of this shift of focus is that the state and the complex functions performed by actors or institutions with effective capacity to govern become crucial elements in the process of policy formation. If one drops the assumption that the state is a rational economic maximizer, one is led to conclude that the prescription of a set of sub-optimal policies in a democratic regime reflects the nature of the tasks facing the state as a consequence of an open political system: the formulation of economic strategy is a compromise between economic and political imperatives. For this reason the process of policy formation is treated here as the outcome of the complex interplay of political, ideological, and economic factors, in which the state plays a key role in reconciling economic development and political stability. There is no guarantee, of course, that this function will be performed. Hence we have stressed here the techniques of government action and the interactions between politicians and técnicos, in the Kubitshek years and during the conjuncture of political uncertainty which followed them.

The chequered history of economic management in Brazil was thus approached by means of a reconstruction of the process of policy formation as it developed

after 1945 in a politically unstable context at home and abroad. It was seen as the outcome of the dynamic interaction of three factors: 1) the economic requirement for the promotion of continued growth and the management of disequilibria, reflecting underlying imperatives intrinsic to the structure and manner of functioning of the economic system, the flouting of which is self-defeating in the end as it leads to a declining economic performance and concomitant further strains on the political system; 2) the way in which the economic deferenda were perceived when refracted through the economic ideologies of the political actors best equipped to interpret them - the técnicos, and the extent of common ground between them; and 3) conjunctural or structural factors of a political nature which affected the viability of competing alternative projects for capitalist development in Brazil, emanating in the main from within the state apparatus itself.

In order to show the interaction of these factors, particular emphasis was given to conjunctures of political and economic uncertainty, in which the process of redistribution of political resources was marked by the recurring phenomena of rapid inflation and foreign exchange crises. This afforded an opportunity to assess the role and performance of the técnicos when seeking to implement stabilization-cum-growth policies, and to account for the contrast between the intentions and results of economic policy.

* * * *

We now turn to the principal conclusions to be drawn from the evidence presented in earlier chapters. The flexible approach to economic management which characterized intensive industrialization in the late 1950s, overseen by the técnicos who later became the leading architects of policy in the post-1964 regime, was the historical outcome of a discontinuous process of policy formation in the immediate post-war period. A decisive part was played in it by the political and technical experience accumulated by the relevant actors in the ten years after 1945. In general, economic management in democratic Brazil developed as a series of ad hoc adjustments against the background of the requirements imposed by the shifting national and international political

background, rather than as the result of a coherent set of policies defined in advance. As we saw in Chapter II, the process becomes intelligible when set against the background of an intensive redistribution of political resources, within and outside the decision-making system, in which the mobilization of technical and scientific knowledge as a political resource in the service of rival projects for capitalist development was crucial. The lesson of the Dutra and Vargas years was that neither the neo-liberal nor the nationalist-developmental projects were politically and economically viable. The técnicos learned a great deal from the collaboration between nacionalistas and a sub-group of cosmopolitas in the formulation of a political strategy for the early years of the Vargas government, and from the orientation of United States policy between 1950 and 1953. The cosmopolitas desenvolvimentistas saw the the IMF shock therapy adopted in 1953-4 was politically inviable, and revealed in a dramatic fashion the fragility of democracy in Brazil when subjected to the acute stresses imposed by the disciplines of conventional stabilization policies. The same realization made the nacionalistas amenable to the strategy of consensus adopted by Kubitshek. The narrowing of the gap between the two desenvolvimentista camps was carried further by the process of intellectual cross-fertilization which had been made possible by the relatively unorthodox diagnosis and prescriptions of the Joint Brazil-USA Commission in the early 1950s. However, the contrast between this mission and the Abbink Mission of 1947-49, and the new line taken by U.S. policy from 1953 onward, was equally significant in its contribution to the political education of the técnicos. The contradictory stances of the two missions and the subsequent coolness of the U.S. government to foreign aid showed that technical and scientific knowledge was as much a political resource in the United States as in Brazil, and suggested that technical advice and expertise could hardly be the exclusive yardstick of "rational" economic management.

Another conclusion to be drawn from our analysis is that the Brazilian experience of policy making justifies a political approach to inflation and over-reliance on foreign borrowing. This is meant not only in the sense that the failure of policy prescriptions in 1953, 1961, and 1963 can be explained

in terms of the contradictory short-run political pressures on decision-makers in ways which have been explored in considerable depth by authors such as Hirschman, Thorp, and Kucjzinski, but also in the sense developed by Whitehead¹. In other words, the state is treated as a key actor in the process of economic destabilization, which in the Brazilian case we date from 1959.

Thus the reasons for the contrast between the intentions and the results of economic policy making were sought in the pattern of governmental action in the relevant conjunctures, and therefore in the causes which contributed to the resumption of inflationary governmental behaviour. For this reason we sought to explore the conjunctures in which stabilization-cum-growth policies such as those proposed by técnicos of differing political persuasions in 1959 and 1963 respectively were at issue. In both cases, the postponement of stabilization action seemed to be the line of least resistance for the government concerned, given the prominence acquired by political factors, such as the need to hold the social compact together in 1959, and the weakness in 1963 of a government incapable of promoting a minimum of consensus on economic strategy within its own political bases.

In the light of the evidence provided in Chapters IV to VII it seems that in the Brazilian experience of economic management of disequilibria two types of political causality accounted for the resumption of inflationary governmental behaviour, one associated with the expansive phase of the economic cycle, and the other with the recessive phase. Contrasts can be drawn between the conjunctures of 1958-59 and 1963 in terms of the changing nature of the political factors which constrained effective stabilization, and the political dynamics of stabilization itself. Political priorities played a decisive role in the course taken over the choice facing policy makers in 1959, expressed in the language of the time as "either stabilization or growth". Governmental action was crucial to the explanation of the postponement of coherent responses to emerging

1. Whitehead, L., "The Politics of Inflation", pp. 2-8, and 15-30.

disequilibria, and reflected a compromise solution in the face of the conflicting goals of intensive industrialization, the holding together of the social compact, and the accommodation of the interests of traditional exporters. Thus although 1959 was presented here as a turning point in the process of economic and political destabilization which affected the administrations of Quadros and Goulart, Kubitshek's postponement of the day of reckoning was the price paid for the much praised social and political stability achieved during the expansionary phase of the economic cycle.

In contrast, the unmanageability of acute disequilibria and recession in 1963 was interpreted here as the result of processes responsible for weakening the government, among which we gave particular prominence to the call for antagonistic tasks on the part of sectors hitherto excluded from the decision-making system, the reformist offensive launched by the executive in an effort to channel and absorb those demands, and the erratic patterns of techniques of governmental action from Quadros onward. One major result of our analysis of the conjuncture preceding the breakdown of the regime is that we were able to qualify Whitehead's approach to the process of 'weakening' of the government. His hypothesis, based on other Latin American experiences, of a conflict between two rival centres of power, the executive (spending) power and legislative (taxing) power, is similar to interpretations current in the Brazilian literature of the final institutional deadlock preceding regime breakdown. It holds true, as we have shown, from the Quadros takeover onward. However, it only provided the background to the failure to manage disequilibria. As we have tried to show, it was conflict within the executive itself, and within the political party led by the President, which precluded the formulation of an agreed economic policy and contributed the coup de grâce to the traditional party alliance behind the government. The political impossibility of a new social compact presided over by the PTB was a crucial factor in the final dénouement. This understanding of the process through which the gradual weakening of the formal political system ran its course led us to explore two major areas: the inherent contradictions of the social compact,

brought to the fore by the declining efficacy of populism as a means of control, and the fragility of Brazilian democracy on a basis of class collaboration, once subjected to acute economic stresses and the political strains generated by the commitment of the executive to the extension of labour organization to the countryside, and to agrarian reform.

Although the analysis of the two conjunctures showed that the politicization of economic issues and widening gap between técnicos and politicians within the same coalition was a recurrent pattern, contrasts can be drawn between the dynamics of stabilization in each case. In 1959 the politicization of economic issues and the revival of nationalism acted as cementing factors which ensured greater cohesion among the partners in the social compact in support of the policy choices of the executive and the strategy of consensus. In 1963, in contrast, the politicization of economic issues generated cumulative effects which further weakened an already weak government. The economic achievements of the Kubitschek administration had made inequality relatively tolerable, and Kubitschek had been able to unite political forces around himself in opposition to the Lopes-Campos group identified with the IMF. In contrast, Goulart was faced with the breakdown of populist methods of control over the trade union movement, and a developing split in the party alliance providing the majority. He had been a divisive figure since 1953, and his erratic course once in government only fostered further divisions.

A further decisive factor was the politicization of economic issues by those responsible for the orientation of U.S. policy toward Brazil from 1962 onward. In the wake of the Cuban revolution, allegiance to the United States became an important factor governing the attitudes of senior US officials to the provision of aid for development. The independent foreign policy pursued by Quadros and Goulart awoke fears that here too U.S. influence was on the wane. It is all the more understandable in the Brazilian case, therefore, that the question of allegiance to the U.S. position on hemispheric issues should have become prominent, and further undermined the centre-left coalition between técnicos and politicians in mid-1963.

the most convincing approach to the disequilibrium phase, and to that of 'institutional modernization' which followed it, would in our view be one that accounts for the complexities of the dynamic interplay between economic and political factors in the manner suggested by Hirschman in a different context some years ago.¹ The Marxian concept of historical process (recalled by Hirschman to justify an 'economic-cum-politics' approach to the understanding of small incremental changes and improvements rather than revolutionary change) is re-interpreted as follows:

"Such models in which economic growth either dispels or generates political storm clouds are really quite primitive. ... all the while a much superior construct was available: the Marxian concept of the historical process which rests on a far more realistic, if more complex, interaction between economic and political factors. If one replaces - and this does not do undue violence to Marx's thought - his "productive forces" and "relations of production" by economic and political factors, respectively, the representation of this process is somewhat as follows: at any one historical stage, the economy functions within a given political and institutional framework; on the basis of and owing to this framework, economic forces left to themselves can achieve some forward movement, but beyond a certain point further development becomes more difficult and eventually is held back by the unchanging political framework which, from a spur to progress turns into a "fetter"; at that point, political-institutional change is not only necessary to permit further advances, but is also highly likely to occur, because economic development will have generated some powerful social group with a vital stake in the needed changes" (pp. 16-17).

This is not to imply that bureaucratic authoritarianism was an inevitable outcome of the pattern of development and policy choices inherited from the Kubitschek administration - for such a view would suffer from the type of reductionism, however redefined, that we are implicitly criticizing in this work. By adopting this methodological stance, we think it possible to understand the logic underlying the conjuncture of indeterminacy where extreme economic and political uncertainty had an undesired outcome: the political and institutional change which ensured economic growth in the first of the bureaucratic authoritarian regimes in Latin America reinforced rather than removed the fetters on social and political progress. The treatment given here to the conflictive interplay between economic necessity

1. Hirschman, A Bias for Hope, pp.15-16.

and the factors which constrained politically progressive changes in the political and institutional framework therefore imply an inversion of Hirschman's proposal, suggesting a 'politics-cum-economics' approach. This is because 'economic deferenda' were treated here as the result of the pattern of capital accumulation instituted as a policy option in the late 1950s. This in turn entailed the deepening of state intervention in the economic and political systems. Finally, the direction and scope of the model of economic development were the outcome of a process of policy formation, the vicissitudes of which could be captured in successive conjunctures of uncertainty, underlined by an intensive redistribution of political resources.

BIBLIOGRAPHY

PRIMARY SOURCES

Private Archives:

Plinio de Arruda Sampaio

Carvalho Pinto

Sebastião A. Cunha

INTERVIEWS

Prof. Celso Furtado

Prof. Carvalho Pinto

Prof. Roberto Campos

Plinio de Arruda Sampaio

Jose Gregori

Marcilio Marques Moreira

Almino Affonso

Sebastião A. Cunha

SECONDARY SOURCES

Official Documents and Archives

Presidência da República, Síntese do Plano Trienal de Desenvolvimento Econômico e Social, (Brasília, 1962)

Presidência da República, Plano Trienal de Desenvolvimento Econômico e Social, Brasília, 1962.

Sumoc, Reports, 1959, 1961, 1962, 1963.

Anais da Câmara de Deputados, vs issues, Brasília, Congresso Nacional.

Comissão Brasil - Estados Unidos para o Desenvolvimento Econômico, Relatório Geral, Rio de Janeiro, 1954.

Ministério do Planejamento, Plano de Ação Econômica do Governo, Brasília, 1965.

Diário do Congresso Nacional, vs. issues, Brasília, 1959, 1961, 1962, 1963.

Janio Quadros, Mensagem ao Congresso Nacional, Rio, Imprensa Nacional, 1961.

Goulart, J., Mensagem ao Congresso Nacional, Rio: Diário do Congresso Nacional, março 1963.

Juscelino Kubitschek de Oliveira, Mensagem ao Congresso Nacional, Rio de Janeiro; Imprensa Nacional, 1956.

Ministério de Fazenda, Plano de Estabilização Monetária para o período setembro de 1958 a dezembro de 1959, Rio: 1958, 2 vol.

BOOKS

Bulhões, A. O Ministério da Fazenda no Sistema Nacional de Estatística e Aspectos da Situação Econômica e Financeira do Brasil, Rio de Janeiro; IBGE, 1956.

Bulhões, O. À margem de um relatório, Rio de Janeiro, Edições Financeiras, 1950.

_____, O Ministério da Fazenda no Sistema Nacional de Estatística e Aspectos da Situação Econômica do Brasil, Rio: IBGE, 1956.

BNDE-CEPAL, "Análise do Processo Inflacionário no pós-guerra", Econômica Brasileira, Rio, Editora Nacional, 1955, vol.I, n.4.

Berle, A. Navigating the Rapids, 1918-1971, New York, Harcourt Brace Jovanovitch, 1973.

Benevides, M.V. O Governo Kubitschek-Desenvolvimento Econômico e Estabilidade Política, São Paulo, Brasiliense, 1976.

_____, A UDN e o udenismo, São Paulo, Paz e Terra, 1981.

Callado, A. Os Industriais da Sêca e os Galileus de Pernambuco; Rio de Janeiro, Civilização Brasileira, 1961.

Carone, E. A IV Republica Documentos, São Paulo - Rio; DIFEL, 1980.

Campello de Souza, M.C. Estado e Partidos Políticos no Brasil (1930-1964), São Paulo, Alfa-Omega, 1976.

Castelo Branco, C. Introdução à Revolução de 1964; Rio de Janeiro, Artenova, 1975, 2 volumes.

Camargo, A. "Autoritarismo e Populismo, Bipolaridade no Sistema Político Brasileiro", Dados, n.12, 1976, pp.22-45.

_____, "A Questão Agrária: Crise de Poder e Reformas de Base (1930-1964) in O Brasil Republicano, ed. by Boris Fausto, (São Paulo, Difel, 1981), pp.113-183.

Campos, R. Economia, Planejamento e Nacionalismo, Rio de Janeiro, Apec, 1963.

_____, A Moeda, o Governo e o Tempo, Rio de Janeiro, Apec, 1963.

_____, "Two views on Inflation in Latin-America" in Hirschman, Latin American Issues, New York, 20th century Fund, 1961.

- Campos, R. Ensaio de História Econômica e Sociologia, Rio de Janeiro, Apec, 1963.
- Cardoso, F.H., "On the Characterization of Authoritarian Regimes in Latin America", in Collier ed. The New Authoritarianism in Latin America, (Princeton, Latin American Studies, 1980), pp.22-61.
- Cardoso de Mello, J.M., "O Capitalismo Tardio - Contribuição à Revisão Crítica da Formação e Desenvolvimento da Economia Brasileira" (Universidade de Campinas, Tese de doutoramento, 1975).
- Chilcote, R. The Brazilian Communist Party, New York, Oxford University Press, 1974.
- Collier, ed. The New Authoritarianism in Latin America, Princeton, Latin American Studies, 1980.
- Dreyfuss, R., A Conquista do Estado, Rio de Janeiro, Vozes, 1981.
- Economic Commission for Latin America, Economic Survey of Latin America, 1965, Mexico: 1959.
- _____, Economic Survey of Latin America, 1963, Mexico; 1964.
- _____, Economic Survey of Latin America, Mexico, 1966.
- Erickson, K. The Brazilian Corporative State and Working-Class Politics, Berkeley, California University Press, 1977.
- _____, "Labour in the Political Process in Brazil; Corporatism in a Modernizing Nation", (Columbia Univ. Ph.D. thesis 1970).
- Flynn, P. Brazil: A Political Analysis Colorado, Westview Press, 1978.
- Furtado, C. Desenvolvimento e Sub-desenvolvimento, Rio: Fundo de Cultura, 1961.
- _____, "Obstáculos Políticos ao Desenvolvimento Econômico," Revista Civilização Brasileira, (N.2, 1965).
- _____, Formação Econômica do Brasil, São Paulo, Editora Nacional, 1967.
- _____, Uma Política de Desenvolvimento Econômico para o Nordeste, Rio de Janeiro; Imprensa Nacional, 1959.
- Fundação Getúlio Vargas, A Missão Cooke no Brasil, Rio de Janeiro, Centro de Estudos de Problemas Brasileiros, 1948.
- Gaspar, D. "O Economista e o Desenvolvimento Econômico," Econômica Brasileira, vol.3, nos.1-2, 1956.

- Daland, Estratégia e Estilo de Planejamento Brasileiro; Rio de Janeiro, Ed. Lido, 1969.
- Gudin, E., Simonsen, R., A controvérsia do planejamento na economia brasileira, Rio de Janeiro; IPEA/IIPE, 1975.
- Gudin, E. Inflação, Crédito e Desenvolvimento, Rio de Janeiro; Agir, 1956.
- _____, Análise de Problemas Brasileiros 1953-1964, Rio de Janeiro, Agir, 1965.
- Jaguaribe, H. Desenvolvimento Econômico e Desenvolvimento Político; Rio de Janeiro, Fundo de Cultura, 1962.
- Hirschman, A. "The Turn to Authoritarianism in Latin America and the Search for its Economic Determinants", in Collier, ed. The New Authoritarianism in Latin America, Princeton, Latin American Studies, 1980, pp.62-99.
- _____, "Inflation in Chile", in Journeys Towards Progress, New York, W.W. Norton, 1973.
- _____, "The Changing Tolerance for Income Inequality in the Course of Economic Development", Quarterly Journal of Economics, 87, N.Y. (November 1973).
- _____, Strategy of Economic Development, (New Haven: Yale University Press, 1958).
- _____, Journeys Towards Progress, (New Haven: Yale, 1963).
- Jurema, A. Sexta Feira 13, Rio de Janeiro, O Cruzeiro, 1964.
- Lafer, C. "The Planning Process and the Political System in Brazil - a Study of Kubitschek's Target Plan, 1956-61" (Cornell University Ph.D. thesis 1970).
- Leff, N. Economic Policy Making and Development in Brazil 1947-1964, London, John Wiley and Sons, 1968.
- _____, Economic Policy-Making and Development in Brazil, 1947-64, London, John Wiley and Sons, 1968.
- Lessa, C., Brazil: Fifteen Years of Economic Policy-Making, Economic Survey of Latin America, New York 1966.
- Lira, P. "A Missão do Economista, I (1955) Econômica Brasileira, vol.1, nos. 1-2, 1955.
- Martins, C.E. Tecnocracia e Capitalismo, Sao Paulo, Brasiliense 1974.
- _____, A Tecnocracia na História, Sao Paulo, Alfa Omega, 1975.
- Martins, Rodrigues, L. Conflito Industrial e Sindicalismo no Brasil, Sao Paulo, DIFEL, 1966.
- Martins, L. Pouvoir et Développement Economique-Formation et évolution des structures politiques au Bresil, Paris, Anthropos, 1976.

Martins, C.E. Tecnocracia e Capitalismo, São Paulo, Brasiliense/Cebrap, 1974.

_____, A Tecnocracia na História, São Paulo, Alfa Horaga, 1975.

Martins Rodrigues, L., Conflito Industrial e Sindicalismo no Brasil, São Paulo, Difel, 1966.

Marx, "The Eighteenth Brumaire of Louis Bonaparte", in Selected Works, Moscow, Progress Publishers, 1977, vol.1.

Meynaud, J. La Technocratie, Paris, Payot, 1966.

Malan, P., Bonelli, R. Abreu, M., Pereira, C. Política Econômica Externa e Industrialização no Brasil 1939-52, Rio de Janeiro, IPEA/INPES, 1977.

_____, 'Foreign Exchange Constrained Growth in a Semi-Industrialized Economy: Aspects of the Brazilian Experience, 1946-1976' (Berkeley University Ph.D. thesis 1978).

_____, "A Política Econômica e Teorias da Balança de Pagamentos: Relações Internacionais do Brasil," Período 1946-1979' Univ. do Rio de Janeiro, Livre Docencia thesis (1981).

Nascimento, K. "O Aumento de Vencimentos do Funcionalismo Público Federal em 1963: um estudo de caso", in Política e Administração de Pessoal, estudos de dois casos, Rio de Janeiro, Fundação Getúlio Vargas, 1966, pp.37-87.

O'Connor, J., The Fiscal Crisis of the State, London, St. James Press, 1973.

O'Donnel, G. "Tension in the Bureaucratic-Authoritarian State and the Question of Democracy", in Collier, pp.285-319.

Parker, P. Brazil and the Quiet Intervention, 1964, Austin, University of Texas Press, 1979.

Pinto, A., Chile-um Caso de Desarrollo Frustrado, Santiago, Universitaria, 1973.

Prebisch, Hacia una Dinámica del Desarrollo, Mexico, Fondo de Cultura, 1952.

Graham, R. Civil Service Reform in Brazil, Austin; Texas University Press, 1974.

Rocha Miranda, J.C., "O Plano Trienal: canto de cisne do nacional desenvolvimentismo", Universidade de Campinas, Tese de Mestrado, 1979).

Serra, J., "Three Mistaken Thesis Regarding the Connection Between Industrialisation and Authoritarian Regimes", in Collier, pp.99-165.

- Simonsen, R., Alguns Aspectos da Política Econômica mais Conveniente para o Brasil, São Paulo, Federação das Indústrias, 1943.
- _____, Níveis de Vida e Economia Nacional, São Paulo, Centro de Estudos e Ação Social, 1940.
- Singer, P., "Análise Crítica do Plano Trienal", in Desenvolvimento e Crise, São Paulo, Diffl, 1974.
- Skidmore, T. Politics in Brazil, New York, Oxford University Press, 1969.
- Soares, G. 'El sistema electoral y la Representación de los grupos sociales en Brasil', Revista Latino Americana de Ciencia Política, Santiago, vol.II, 1967.
- Sochaczewski, A.C. "Financial and Economic Development of Brazil", 1952-1968, (London School of Economics, Ph.D. thesis, 1960).
- Sola, L. "Inflation and the Monetary Correction", (Cambridge, 1975).
- _____, "O golpe de 1937 e o Estado Novo", in Brasil em Perspectiva, São Paulo: Diffl, 1968, pp.138-165.
- Soares, G.A. "El sistema electoral y la representacion de los grupos sociales en Brasil", Revista Latino americana de Ciencia Política vol.2 (n.1, 1971).
- Tavares, M.C. "Acumulação de Capital e Industrialização no Brasil", Rio de Janeiro, Faculdade de Economia e Administração, Livre Docência thesis (1974).
- _____, "Auge e Declínio da Substituição de Importações," in Da Substituição de Importações ao Capitalismo Financeiro, Rio: Zahar, 1972.
- Thorp, R. "Economic and Social Consequences of Orthodox Economic Policies in Argentina in the post-war years", Bulletin of Oxford Institute of Economics and Statistics, vol.29, August, 1967.
- _____, "Inflation and Orthodox Economic Policy in Peru", Bulletin of Oxford Institute of Economic and Statistics, vol.29, August, 1967.
- Vargas, G. O Governo Trabalhista no Brasil, Vol.II, Rio de Janeiro, Jose Olympio, 1954.
- Weffort, F. 'Estado e Massas no Brasil', in Revista de Civilização Brasileira, Rio: Civilização, 1966, n.7, pp.30-48.
- _____, 'Sindicatos e Política' (Univ. De São Paulo, Livre Docência thesis, 1972).
- Wells, J. "Growth and Fluctuations in the Brazilian Manufacturing Sector during the 1960's and early 1970's (Cambridge University Ph.D. thesis, 1977).
- Whitehead, L. "The Politics of Inflation", (Oxford, mimeo, 1977).

Periodicals

Conjuntura Econômica

Digesto Econômico

Diretrizes

Desenvolvimento e Conjuntura

Econômica Brasileira

Estudos Econômicos

Revista do Conselho Nacional de Economia

Revista Brasileira de Economia

Revista Civilização Brasileira

Revista Brasileira de Ciências Sociais

Revista Brasileira de Estudos Políticos

Política Externa Independente

Revista de Administração Pública

Revista Latino americana de Ciencias Sociales

O Pasquim

Newspapers

Correio da Manhã

Diário Carioca

Folha de São Paulo

Folha de Manhã

Jornal do Comercio

Novos Rumos

O Estado de São Paulo

Jornal do Brasil

O Globo

Última Hora

Tribuna da Imprensa

