

Abstract

The Determinants of the Pattern of Economic Policy in Brazil - 1930-1960.

This paper investigates the main determinants of the pattern of economic policy adopted in Brazil from 1930 to 1960. This pattern was marked by strong state intervention, high levels of protectionism and a permissive treatment of inflation. In addition, it was characterised by distortions that affected negatively the results of the process of industrialisation.

Given the negative impact of certain policies on economic development, it is important to understand why they were adopted. The paper examines how the characteristics of the international context, the ideology of the policy makers, the role of the technicians and the influence of the industrialists influenced important decisions of economic policy, contributing to the consolidation of the pattern emphasised above.

The Determinants of the Pattern of Economic Policy in Brazil - 1930-1960.

Alexandre Queiroz Guimarães

Introduction.

The objective of this paper is to consider the pattern of economic policy adopted in Brazil in the period 1930-1960. A project of industrialisation, based on import substitution and marked by strong state intervention, was defined in the 1930s and solidified during the *Estado Novo* (1937-1945). The main characteristics of the pattern were confirmed and consolidated in the second Vargas government (1951-1954), when the state strengthened its role as direct investor in infrastructure and basic industry. In this process, the capacity of the state to stimulate and co-ordinate the economy was substantially increased.

Other important characteristics marked the pattern of economic policy, such as the intense employment of tariff and non- tariff forms of protection. In the period 1939–1953, the exchange rate became overvalued and a system of imports licenses guaranteed the protection to national industry. After 1953, a multiple exchange rate regime was introduced as a mechanism to discriminate imports and stimulate certain exports. In addition, most of this period was characterised by a permissive treatment of inflation. Divided between the investments and projects necessary to develop the country and the short-term unbalances, the governments opted for postponing the policies of stabilisation.

This pattern of economic policy had important impact in the process of economic development. Certain policies were marked by mistakes and distortions and, despite the accumulation of problems and contradictions, the governments did not adopt further policies to correct the situation. Therefore, **the understanding of this process adds to the grasp of the limits in the process of economic development in Brazil.**

Before considering the pattern in detail and presenting its determinants, it is necessary to make some considerations about the suitability of defining a pattern of

economic policy. This is necessary because the respective governments were marked by important differences, which included the adoption of certain policies that diverged from the main lines identified in the pattern. The Dutra government (1946-1950), for example, embraced certain liberal orientations and adopted, from 1946 to 1949, an orthodoxy policy to combat inflation. Similarly, the Second Vargas government (1950-1954) also demonstrated serious disposition to curb inflation in 1951 and 1952. In addition, it is important to emphasise that certain difficulties were beyond the governments' control. As an example, important institutional obstacles reduced the capacity of the governments to control inflation¹.

Although in certain moments the government demonstrated intention to curb inflation, it is important to stress that this direction did not last and that an expansionist economic policy prevailed. In other words, the governments were not able to adopt a stringent monetary policy and did not demonstrate a solid commitment to eliminate inflation. Certain obstacles and other priorities led the government to increase expenditure and, as a consequence, the rates of inflation were very high in most of the period. In brief, although many results were not a deliberated option of the governments, the policies assumed certain general characteristics, making possible and very useful the identification of a general pattern of economic policy.

Distortions in the pattern of economic policy making.

The pattern of economic policy was characterised by several distortions, properly emphasised by the neoliberal economist Eugenio Gudin. Gudin criticised strongly a system of previous import licences which, according to him, forbade the import of any good which could compete with national industry. According to Gudin, the high levels of protectionism practically eliminated the risks of investment, benefiting specific interest groups at expense of the large majority of the consumers² (Diniz, 1978: 207).

¹ This included the lack of a central bank and the incapacity to control the expenditure of states and municipalities (see Vianna, 1990b).

² According to Gudin, “the national interest is the increase in technical productivity stimulated by free competition. By contrast, the interest of the negotiators (...) is the defence of acquired positions and the

The criticisms were also concentrated on the high rates of inflation, which discouraged saving and public investment and distorted the system of prices. And finally, Gudin emphasised how the model of development completely neglected agriculture, an activity in which the country had natural advantages and which had a key role to play in increasing exports and reducing balance of payments problems.

These distortions are widely emphasised by analyses centred on the difficulties of development in Latin America (see, for example, Balassa, 1982). They stress that high tariffs produced an inefficient industry, unable to conquer foreign markets. Similarly, the overvalued exchange rate inhibited exports, both in the agriculture sector and in new industries. Consequently, the capacity for industrial growth became limited to the expansion of the domestic market, while poor export performance tended to provoke constant problems in the balance of payments. Furthermore, high inflation, intense state intervention and complex regulation were blamed for producing distortions and hindering the efficient allocation of resources in the economy. These characteristics put Latin American countries in a vicious cycle, marked by inefficient industry, high inflation, poor export performance, balance of payments problems and constraints to economic growth.

These distortions of the model of development are contrasted with the virtues of the export-led industrialisation adopted by the East Asian Newly Industrialised Economies (NIEs). The analyses highlight how Korea and Taiwan, by adopting more realistic exchange rates and being less permissive with inflation, achieved a virtuous cycle characterised by high productivity, export growth, expansion in the market, rapid economic growth and an increase in real wages. In these countries, the conquest of foreign markets increased the markets available for industrial development and the country's capacity to import. Likewise, control of inflation and productivity growth produced an increase in real wages and reduction in social inequalities.

conservation of the status quo through the fixing of quantities and prices based on the production costs of the less capable" (In Diniz, 1978: 208).

In view of the distortions emphasised above, which negatively affected Brazil's capacity for economic development, it is very important to understand how this pattern of economic policy came to be adopted. These factors are also important to understand why, in the face of the evidence of economic difficulties, corrective policies were not immediately adopted.

The Brazilian response in the 1930s.

The impacts of the crisis of 1930 were felt throughout Latin America, putting in check models of economy centred on the export of agriculture products. Nevertheless, the responses of different countries to the crisis varied significantly, depending on the internal configuration of forces. In Colombia, for example, the weakness of the urban middle classes and the hegemonic power of the export sector led to responses to the international crisis which did not significantly affect the structure of the economy³. In Chile, the rural oligarchies used the state to soften the effects of the crisis and permitted the constitution of a simple industrial sector as an extension of the export structure. Similarly, in Argentina, the agrarian elites, which controlled power, permitted a process of industrialisation in sectors which processed raw materials available domestically. Manufacturing, nevertheless, suffered following the signing of an international treaty which, in order to guarantee market to the exports, opened the domestic market to the import of manufactured goods.

In Brazil, the process was very different and led to significant changes in the role and organisation of the state and in the model of economic development. Firstly, the new regime installed in 1930 promoted the centralisation and the strengthening of the state, preparing it to play a very active role in addressing national problems. Organs were created to intervene in and regulate the economy, increasing the state's capacity to design and execute economic policy and to stimulate economic development. Furthermore, parts of the public service were modernised and became subject to

³ According to Cardoso and Faletto (1970: 70-73), the rural aristocracy maintained its dominance until the end of the Second World War, blocking the development of a productive system centred on the domestic market.

meritocratic criteria of selection and promotion⁴.

Secondly, another central change was the adoption of a deliberate strategy to promote industrialisation. Before 1930, Brazil's economic policy was mainly directed towards promoting the interests of the coffee bourgeoisie and industrial development took place on the fringes of coffee activity. This orientation changed after 1930. Although the policies adopted in the first half of the 1930s were marked by certain ambivalence, the directions followed after 1937 did not leave any doubt about the government's intention to promote industrialisation. The *Estado Novo* (1937-1945) defined a more articulated and co-ordinated program of industrialisation, which included heavy industry. The government created the *Carteira de Crédito Agrícola e Industrial do Banco do Brasil* (CREAI) to provide long-term loans to industrial projects and a range of public enterprises was created in the areas of steel, electrical energy, heavy chemistry, mining and automotive motors (Draibe, 1985: 125).

It is important to understand why the Brazilian response took the directions indicated above. Besides the effects of the international crisis, three main factors must be taken into consideration: the balance between the social forces, the characteristics of the political culture and the ideology of the political elite. Firstly, the divergences between the rural aristocracies, the influence of the military and the strengthening of the industrial class produced a balance of power that increased the autonomy of the political elite to shape a new economic model. This balance of power is important to explain why the agrarian aristocracy was not able to control power and implement small changes in the model of development, as happened in other countries.

Secondly, the Brazilian response to the international crisis was very influenced by the previous role assumed by the state and by the characteristics of the political culture.

⁴ This process was accelerated in the period of the *Estado Novo* (1937-1945), in which Vargas, with the support of the military, headed a dictatorial regime. According to Draibe (1985: 95), "*the Estado Novo inaugurated a new phase in which the government assumed the responsibility of co-ordinating, disciplining and stimulating the productive activities in an unprecedentedly deep way, acting as if there were a conscious project delineated in basic lines and aimed at achieving certain objectives*".

The Brazilian state in the nineteenth century was more interventionist than any other Latin American state and its role was further increased by the demands of the coffee bourgeoisie to regulate the supply of the product (Reis, 1982). This intense state influence was supported by a political culture which, inherited from the mercantilist Portuguese tradition, viewed state intervention as the best way to address the national interests. Thus, in response to the problems and contradictions of the First Republic (1889-1930)⁵, the opposition defended the return of a strong state as the only way to pursue the necessities of national development. In this sense, the previous role of the state and the characteristics of the political culture - as present in the conservative political thought of the 1920s, in positivism and in the military doctrine – are key to understand the directions that marked the re-organisation of the state and the shaping of the economic model after 1930⁶ (see Faoro, 1998).

Therefore, the balance between social forces and the characteristics of the political culture increased the autonomy of the political elite to mould the new model of development. As a consequence, the ideology of the political elite played an important role in the definition of certain characteristics of this model. This ideology favoured the ‘search for technical solutions’⁷, the adoption of a corporatist pattern of interest representation and the promotion of industrialisation as the most suitable strategy of national development.

Although the autonomy of the state and the ideology of the political elite had key influence in the pattern of development, it is important not to disregard the role of the

⁵ In this period, the adoption of a decentralised federalist arrangement allowed the rural oligarchies to capture the state and use it to pursue their immediate interests.

⁶ As Sikkink (1991: 185) claims, “the more the state is viewed as an agency favouring the general interests of the nation, the more likely action will be taken to strengthen state apparatus”. As this author emphasises, an investigation of Brazil's contemporary political culture is important not only to explain the substantial involvement of the state in the economy, but also the support of social groups and the success of state initiatives.

⁷ Leff (1977) emphasises how the Brazilian political culture, by viewing the state as a neutral organism concerned to the general interest and considering political parties as corrupt, tended to support technical solutions with great enthusiasm. Far from being considered anti-democratic, technocratic solutions were viewed as the best way to achieve social objectives.

social forces that, present in the power coalition, constrained significantly the autonomy of the political elite. The revolution of 1930 was not a radical rupture and the new regime was marked by the consolidation of a very broad political coalition, which had to address a range of different interests. In this sense, as Draibe (1985: 99) emphasises, if the disputes between the classes gave autonomy to the state, **the composition and relative power of those classes established the limits of this autonomy and determined also the possible directions to be given to the economic policy**⁸. Therefore, it is necessary to take into consideration both the influence of the social groups and the autonomy of the state. Although the state brought together different interest groups, it was not limited to them (Draibe, 1985: 99).

Diniz (1978) and Leopoldi (2000) emphasise the role of one of these groups, the industrialists, in the definition of a strategy in favour of industrialisation. Although their pro-industrialisation action started much earlier, the industrialists' movement advanced substantially in the 1920s and was very influential at the beginning of the 1930s, favoured by the international crisis and by the weakening of the agrarian aristocracy. As Leopoldi emphasises, variables such as tariffs and exchange rate were critical to the fate of the national industry and became a central object of business pressure.

In conclusion, at the end of the 1930s, important characteristics of the model of development had been consolidated. The state increased substantially its role in economic activity and industrialisation was promoted as the most suitable strategy to achieve national development⁹. Other important characteristics of the new pattern, such as the creation of corporative councils with business participation, were preserved and had important influence in the following decades (Diniz, 1978). In brief, key transformations introduced in the 1930s were maintained and gradually became institutionalised in the following decades, eventually coming to constitute critical characteristics of the model of industrialisation adopted in Brazil.

⁸ As an example, these groups limited the capacity of the state to increase tax and, during the Estado Novo, vetoed the creation of a central organ of planning.

⁹ As Cardoso and Faletto (1970: 93) emphasises, the option for industrialisation is also explained by the need to incorporate the working classes into the economic system and to prevent possible sources of



Latin America regularities in the post-war period.

Before emphasising certain specifics of the Brazilian process, I believe that it is important to explore some characteristics that were common to many experiences of development in Latin America. I believe that these regularities indicate the influence of geopolitical factors, reflected in US foreign policy, and also the consequences that the form of international insertion had in the economies of the countries analysed (Cardoso and Faletto, 1970).

In the immediate post war period, the Latin American countries demonstrated high support for the emergence of a liberal economic order, marked by low tariffs and free trade. The International Conference of Rye, in November 1944, supported a reduction in tariffs, the elimination of quotas and an end to discriminatory practices (Diniz, 1978: 214). Similarly, in 1945, the Inter American Conference prescribed a reduction in tariffs and the adoption of policies favourable to attract foreign capital, while nationalist practices and the creation of public enterprises were condemned (Thorp, 1992: 190).

Nevertheless, few years later, liberalism was abandoned and protectionism was again on the agenda. The common reaction indicated the frustration with the United States foreign policy, marked by the lack of any program of economic support to the region¹⁰. Accordingly, protectionist measures were motivated by the difficulties in the balance of payments, not addressed by the new world order institutions created at Bretton Woods.

Another interesting similarity was the decision of many Latin American countries not to devalue their respective currencies after the Second World War. A fixed exchange rate was maintained for a long period, despite the high inflation which marked most of

instability.

¹⁰ According to Thorp (1992: 191), Latin America was the only area which did not receive a program of international assistance. Thorp shows that the continent received, from 1945 to 1951, an amount less than that received by Belgium and Luxembourg.

the countries. Several factors help to explain this decision. Firstly, the inelasticity in international demand for agricultural products eliminated the advantages of devaluation to the exporters. Secondly, the governments were afraid that devaluation would have an explosive impact on inflation. Thirdly, in several countries, the combination of overvalued exchange rate and a system of import licences provided important gains to the industrialists. Fourthly, the system of import licenses, by inhibiting competition, provided large opportunities of profits to import traders (Thorp, 1992: 190- 194).

In brief, overvalued exchange rates were adopted in a context marked by high domestic inflation, inelasticity of international demand for agricultural products and the absence of a program of aid to the region. Consequently, foreign investment became a very attractive alternative, constituting another common characteristic of industrialisation in these countries. Foreign direct investment permitted not only the balance of payments relief, but also allowed the ruling groups to deepen the process of economic development without undertaking a politically costly process of adjustment (Thorp, 1992: 195). Thus, the advantages offered by foreign investment explain why, despite the nationalist ideology present in many countries, it was very welcome on the continent. As Thorp points (1992: 194-195) out, “the majority of Latin American countries were not in a position to resist the pressures of the international system, not to mention the obvious short-term advantages”.

As a result, the difficulties of the national economies and their dependence on foreign capital gave foreign enterprises substantial bargaining power; this is an important factor in explaining the apparent incapacity of the local governments to regulate and monitor the entrance of foreign investment. One interesting exception, as Thorp (1992: 194-195) emphasises, was Colombia, where the power of coffee planters impeded the adoption of over-valuated exchange rates. This alleviated balance of payments pressures and increased the government’s bargaining power in negotiations with foreign capital¹¹.

¹¹ In brief, this autonomy of foreign capital, a result of the timing and conditions of entrance, was another interesting characteristic shared by the Latin American countries. This was an important divergence between the Latin American and the East Asian new industrialised countries. In Korea and Taiwan,

The model of development adopted in Latin America was also very influenced by ideological factors. Sikkink (1991) emphasises how the effects of the crisis of the 1930s, which severely hit those economies that were very dependent on the international market, influenced the political elites towards models of development centred on the domestic market. According to her, this pessimism in relation to foreign markets is important to explain the option for import substitution, although export promotion strategies would have received much more financial support from international agencies (Sikkink, 1991: 51). After the Second World War, the ideas of CEPAL (Economic Commission for Latin America), which attempted to theorise about the specifics of development in Latin America, gave legitimacy to programs of development centred on import substitution and marked by high tariffs and elevated state intervention¹².

This influence of ideology, reflecting also the lack of constraints of the international community, is apparent when one observes the differences in the pattern of economic policy adopted in Korea and Taiwan. In the first decades after the Second World War, these countries developed many characteristics typical of import substitution industrialisation. Haggard (1990) shows how the process was marked by clientelism, multiple exchange rate regimes, high regulation and lobbying from the import substitution industries aiming at reducing the entrance of competitors¹³. Accordingly, the respective governments demonstrated resistance to currency devaluation, a simplification of the exchange rate regime and the curbing of inflation. As a consequence, the process was marked by the emergence of several distortions characteristic of import substitution industrialisation, such as high inflation, inefficiency and disincentives to exports. Similarly with Latin America, these experiences illustrate

foreign capital came later, had much less importance and was subjected to strict regulation, which favoured the transfer and absorption of technology by local enterprises.

¹² This topic is explored below.

¹³ In Taiwan, in 1957, industrial associations appealed to the Ministry of Economic Affairs demanding restrictions on competition and the prohibition of installing of new plants, measures considered necessary to solve the excess of capacity which marked the industry (Haggard, 1990: 90).

the existence of forces and impulses favourable to the perpetuation of import substitution measures (Haggard, 1990: 57-59; 85-90).

As Haggard (1990: 68-71; 91-93) shows, a turning point was the capacity of the American advisers to impose changes in the strategy of development. Korea and Taiwan were very dependent on United States' aid resources, which substantially increased the capacity of the American advisers to impose programs of stabilisation, currency devaluation and a simplification of the exchange rate regime¹⁴. Thus, this influence of American authorities was critical to the shaping of economic policy and to the adoption of measures which favoured an increase in exports¹⁵.

As argued above, the situation was very different in Latin America, where orthodox economic ideas were viewed with distrust and considered unsuitable to the reality of the continent. CEPAL developed an alternative theoretical interpretation that won support among politicians and technicians. Consequently, although CEPAL condemned many distortions practised in these countries, its ideas legitimised a model of industrialisation centred on high tariffs and permissive treatment of inflation¹⁶. As a consequence, they increased the capacity of politicians to adopt directions that aggravated the distortions.

¹⁴ In Korea, for example, Haggard (1990: 68) shows how President Park's attempts to adopt a policy of high prices in agriculture, aiming at obtaining the support of rural groups, were blocked by the Americans, who forced "the government to bring spending and income into line". Furthermore, devaluation and the adoption of a floating unitary exchange rate regime were critical to increase Korea's capacity to export (Haggard, 1990: 101). Similarly, in Taiwan, an agreement with the IMF led the government to devalue the currency, to replace quantitative restriction for tariffs and to abandon the bias against export (Haggard, 1990: 91).

¹⁵ Another important difference between Latin American and East Asian new industrialised economies (NIEs) was the relative power of the social forces. In these last countries, the agrarian groups and labour movement were much weaker than in Latin America, a result, respectively, of agrarian reform and strong repression. Accordingly, the groups whose interests were connected to import substitution were also much weaker than in Brazil and Mexico. Consequently, while the American pressure was fundamental to explaining the disposition of the government to produce changes in economic policy, the weakness of social groups increased their capacity to do so.

¹⁶ This is an important point to emphasise. The distortions in Latin America were much further than forecast and accepted by the models developed by CEPAL. The leaders of the organ condemned disincentives to exports and very high inflation. Nevertheless, there is no doubt that its ideas strengthened the developmentalist theses and favoured a model of industrialisation that produced the distortions emphasised above.

The international context and the Brazilian policies after 1945.

It is important to emphasise how certain policies, adopted by the Brazilian government at the second half of the 1940s and first half of the 1950s, were reversed as a result of the American foreign policy and of the low entrance of foreign capital. Besides the initial liberal orientation in trade policy, the Dutra government demonstrated a strict commitment to control inflation and very positive results were achieved in 1948 and 1949. Nevertheless, the direction was not kept after 1949. Besides the pressures of the industrialists for credit and the objective of winning the elections in 1950, the change was motivated because the economic policy did not produce the expected results. Foreign capital did not come and reduced the faith of the policy makers on the advantages of an orthodoxy policy.

Similarly, the Vargas government demonstrated disposition to control inflation in 1951 and 1952. The agreement with international financial institutions and the possibility of obtaining resources to finance projects in infrastructure convinced the government of the suitability of a program of stabilisation. Nevertheless, the victory of Eisenhower in the American elections, the changes in American priorities and the disputes between the World Bank and the Eximbank frustrated the Brazilian plans. The Eisenhower government did not keep the commitment to finance the projects in infrastructure, while the World Bank forced the Eximbank to adopt harder conditions in the concession of loans to Brazil (Vianna, 1990b: 132). From 1953, the difficulties to stabilise the economy increased: the government expanded expenditure in infrastructure, while political difficulties hindered the adoption of a firm program of stabilisation.

In brief, the characteristics of the international context and the objectives of the American foreign policy had important impact in the decisions of economic policy. An initial disposition to contain inflation was abandoned in face of the lack of foreign resources to finance economic development. The lack of a program of international assistance for Latin America weakened the liberal groups and favoured a more interventionist orientation. In face of the structural problems, the response was an

increase in state investments in infrastructure and heavy industry. Given the political obstacles to increase tax and the lack of non inflationary mechanisms to finance government's deficits, the strict control of inflation became a very difficult task.

The technicians and the role of ideology.

Sikkink (1991) and Leff (1977) show how ideology and political culture are critical variables in understanding the specific model of development adopted in Brazil. According to Sikkink, political culture in Brazil was very favourable to state intervention and facilitated the acceptance of developmentalism¹⁷ by the different social groups. The author also emphasises the role of technicians in explaining the high support for developmentalism. According to Sikkink, the creation of public bodies of economic studies, in the 1930s and 1940s, produced technicians who, concerned with the best alternatives of economic development, contributed to increasing the support for programs of industrialisation promoted by the state and aimed at reducing foreign dependency.

Similarly, Leff (1977) gives considerable importance to the autonomy of technicians¹⁸ and to the role of ideology in the economic policy making process. Leff (1977: 135) emphasises how the existence of technicians with similar views, staffing important organs in subsequent governments, explains why the lines of economic policy, despite the change of governments and regimes, "have been relatively constant since the end of the 1940s".

According to Leff, this strong influence of technicians explains also the distortions which marked the process of industrialisation. According to him, the policy-makers shared points of view that were considered so self-evident that they were incorporated as

¹⁷ Developmentalism is the term used to characterise the experiences of development in Latin America marked by strong state intervention in the economy, including public investment and 'manipulations' of the market prices.

¹⁸ Leff, by carrying out interviews with people who occupied important posts in public administration, concludes that the technicians had substantial autonomy in the definition of the main lines of economic policy.

axioms, without an accurate analysis of the alternative lines of economic policy. As Leff (1977: 127) points out, “because of ideology, there were no debates about issues such as industrial development versus development of agriculture; light industry versus heavy industry; or import substitution versus the promotion of exports”.

According to Leff, the political elite defended *a priori* an import substitution model based on heavy industry¹⁹. As these ‘self-evident truisms’ do not necessarily coincide with reality, this process was vulnerable to the adoption of inconsistent policies. This is very well illustrated by the adoption of an export policy which, as it was considered secondary by the economic policymakers, was inadequately conceived and contributed significantly to the imbalances which marked the strategy of industrialisation (Leff, 1977: 126-127).


Leff (1977: 143) also emphasises the implications of an ideology that was very permissive in relation to inflation. According to him, the trade-off embraced by the policy makers was not between inflation versus stability, but between inflation and development versus stabilisation and stagnation. The President Kubitschek (1956-1960), for example, believed that to address the national problems with stabilisation was to use the wrong medicine (Sikkink, 1991: 123). Instead, he believed that expansion in expenditure via printing of money, if used to produce investment, would not provoke inflation. Vargas espoused similar conceptions (Fonseca, 1989: 383). Consequently, a certain amount of inflation was seen as inevitable, as a small cost to be paid in order to pursue economic development²⁰.


Sola (1982) and Bielschowsky (1988) show that Leff, although correct in emphasising the influence of the technicians, underestimates the divergences between

¹⁹ According to Leff (1977:124), the policy-makers, having to choose between economic growth of 7% centred on textile industry or 3% centred on steel industry would have opted for the latter.

²⁰ According to Leff (1977), those distortions produced by ideology were possible because Brazil was always able to obtain the resources necessary to finance the program of industrialisation from abroad. The country was able to resist the prescriptions of IMF and to obtain alternative sources of credit. Latin America, in contrast to East Asia, did not have the same geopolitical strategic importance that East Asia had for the United States. This helps to explain its autonomy to adopt ‘alternative’ lines of development.

them. The reforms of the 1930s and 1950s increased the role of the technicians, but their influence in economic policy depended on the capacity of the respective group to convince the policy-makers of the suitability of their position. As Bielchovsky (1988: 427) shows, the period 1953–55 was marked by the technicians becoming conscious of "the importance of political struggle in the intellectual field". This led to an intensification in their attempts to influence the course of economic development²¹. Sola (1982) and Bielschowsky (1988) classified these technicians into three main categories. Their main issues of divergence were the degree of protectionism, the role of foreign capital, the degree and nature of state intervention in economy and the priority to be given to the combat of inflation *vis-à-vis* economic growth.

The first group, the neoliberals, emphasised the necessity of controlling inflation, reducing state intervention, ending prices control and giving a central role to private initiative, including foreign capital. This group was very critical of the model of development adopted since the 1930s, which had been marked by strong government intervention, very high levels of protectionism and a permissive treatment of inflation. The public deficit was seen as the main cause of inflation, which, in turn, was responsible for the main distortions present in the economy. According to this group, high inflation also bore a key responsibility for the  balances in the foreign accounts, since it discouraged savings and foreign investment²².

A second group of technicians, the 'developmentalist cosmopolitans', shared some points with the neoliberals, such as the important role attributed to foreign capital and the necessity of keeping inflation under control. Nevertheless, in contrast to the neoliberals, they supported planning and believed that the state had a critical role in guiding the process of industrialisation²³. Despite  differences in relation to the

²¹ Sola (1982) shows in details the involvement of the technicians in this process. They organised in clubs, edited journals, gave lectures in universities and military schools, contacted business organisations, took direct action inside public bodies and worked as advisors to political parties and economic groups.

²² The neoliberals strongly criticised the thesis which viewed Brazil's problems as a result of structural causes, related to the peripheral position of the country in the world economy. Instead they argued that the national problems were caused by the bad management of the economic policy, which was responsible for inflation and other distortions that negatively affected productivity.

²³ The 'Developmentalist Cosmopolitans' identified three important forms of state intervention: the

priority of combating inflation and the role of foreign capital, the cosmopolitans had important points in common with the third group, the 'nationalist developmentalists'. Both groups supported a central role for the state in centralising financial and administrative resources and in planning the process of development (Bielschowsky, 1988: 398).

The 'nationalist developmentalists' centred their argument on the structural problems inherent to peripheral countries which were, for a long time, agriculture-export economies. The group identified serious structural deficiencies in the national economy, which included low productivity, limited diversification, shortfalls in capital and technical resources and a lack of basic infrastructure services. They further identified the existence of structural problems in the balance of payments, a result of the slow increase in the international demand for primary products and of the deterioration in the terms of exchange against these products.


According to the nationalists, the possibility of economic development thus required a process of industrialisation led by the state. Industrialisation, by permitting the substitution of imports and the export of goods with high income elasticity, was supported as the only way to reverse the structural difficulties in the balance of payments. Likewise, state intervention, through a process of planning, was supported as necessary to the creation of external economies and to the generation of rationality in the absorption and allocation of resources²⁴ (Bielschowsky, 1988: 386).

One important consequence of the nationalist developmentalist argument was the permissive treatment of inflation. Once the solution of the structural problems and bottlenecks demanded increase in public investment, a certain level of inflation and of deficits in the foreign accounts would necessarily have to be tolerated. In other words,

provision of incentives to private investment, including the attraction of foreign capital; playing an entrepreneurial role in high risk sectors and the undertaking of institutional reforms "aimed at mobilizing and channelling both the human and financial resources to priority targets" (Sola, 1982: 113).

²⁴ The nationalist developmentalists opposed the orthodox programs of stabilisation. As the difficulties in the foreign accounts were identified as structural, a result of variables over which the country had no control, the group believed that orthodox policies would not address the source of the difficulties.

an increase in investment and in production, despite producing inflation in the short term, was supported because of its capacity to defeat the real and long term problems of the economy.

The nationalists showed a high degree of mobilisation and had substantial influence in the policy-making process. Many factors were responsible for their success. Firstly, they were supported by the industrialists, who created technical organs and sponsored studies to advance their respective positions. Secondly, a nationalist program of industrialisation was supported by the military, which was concerned to keep control of strategic industries in Brazilian hands. Thirdly, a thesis which valued the action of the state and a process of planning tended to receive support from a substantial parcel of the bureaucracy. And last but not least, a thesis that supported investment and was tolerant of inflation tended to receive enthusiastic acceptance by the politicians.  Kubitischek for example, suffered strong opposition to his inauguration and was not willing to renounce his plans of modernisation to support a program of stabilisation (Bojunga, 2001: 331)²⁵.

The different positions espoused by the three groups of technicians illuminate important issues concerning the program of development. During the Vargas and the Kubitischek governments, the cosmopolitans and the nationalist developmentalists occupied key posts in the government and had substantial influence in the policy making process. The government's main priority was to promote development and technicians were brought into the policy-making process in an effort to give rationality to the process. Combating inflation was put in a second plane, despite the criticisms of the cosmopolitans such as Roberto Campos and Lucas Lopes, the architects of the program of economic stabilisation in 1958.

Otherwise, they would condemn the country to permanent stagnation, without attacking the real problems.

²⁵ In addition, the position of the developmentalists was strengthened by the publication of the theses of CEPAL in 1949 and 1950. CEPAL, an organ that enjoyed considerable international prestige, produced sophisticated analyses which supported the developmentalist theses, thereby contributing to their

The industrialists and the model of development

An important element in shaping the economic policy during this period was the role played by industrial businessmen. Although the state increased its capacity of intervention and became more insulated in certain areas, the industrialists had important channels through which to introduce their demands and thereby exerted significant influence in economic policy.

Leopoldi (2000: 182) shows how, during the Dutra government, the business influence was much more considerable than is usually accepted. The Minister of Labour, Industry and Trade was a leader of FIESP (Federation of Industries of São Paulo) and the business people were very active in attempting to impose their directions through campaigns and personal contacts. Accordingly, Congress was very frequently lobbied and pressurised.

One important objective of the industrialists during the Dutra government was to guarantee that the foreign exchange accumulated during the war would only be utilised according to defined criteria. In addition, they engaged in fierce mobilisation against the main conclusions of the Abbink Mission²⁶, which prescribed an orthodox program of stabilisation centred on credit control (Bielschowsky, 1988: 385). The industrialists' position against programs of stabilisation was maintained in the following years²⁷.


Another position of the industrialists during the Dutra government was the opposition to currency devaluation. This is explained by the fact that the quantitative control of 'non-essential' imports protected national producers, while the overvalued exchange rate constituted a significant incentive to the imports of raw materials and

legitimacy and acceptance (Furtado, 1997: 208).

²⁶ The Abbink mission was an international mission contracted by the Brazilian government with the intention of presenting a diagnostics of the main obstacles to the national development.

²⁷ During the Café Filho government (1954-55), the industrialists were strong opponents of the program of monetary stabilisation proposed by the Finance Minister, Eugenio Gudin. They pressured the governor of São Paulo and led President Café Filho to change the policy on credit. This interference provoked the resignation of Gudin and the appointment of a new Finance Minister, who accepted the demands of the industrialists and loosened control over the monetary policy (Leopoldi, 2000: 242).

equipment. Consequently, instead of devaluation, the business class supported ‘protection against devaluation of other currencies’, participation of the class in international trade agreements and incentives to exports (Leopoldi, 2000: 186). Furthermore, a program of import substitution was supported as the best way to solve the structural problems in the balance of payments.

Business influence was strengthened during the Second Vargas government. The nationalist position of the President, who espoused an omic policy very favourable to national industry, put the industrialists in a very privileged position, from which they could influence the model of economic development. The creation of the *Assessoria Econômica*²⁸, staffed with several nationalist technicians who had previously worked in the business associations, also contributed to increasing the industrialists' voice in the government.

Business influence was particularly important in policy on tariffs and foreign trade. The industrialists had many contacts and easy access to those government bodies responsible for the respective policies, *Carteira de Exportação e Importação* (CEXIM – Bureau of Exports and Imports) and the department of foreign exchange of the Bank of Brazil²⁹. The president of the *Confederação Nacional da Indústria* (CNI – National Confederation of Industry), Euvaldo Lodi, had weekly meetings with President Vargas and also had very frequent contacts with authorities of the *Banco do Brasil*, CEXIM and SUMOC³⁰ (Leopoldi, 2000: 194). Finally, the industrialists gained access to *Itamaraty*, the organ responsible for foreign policy, and won a guaranteed right to participate in the consultative commission on trade agreements (Leopoldi, 2000: 139).

The following examples illustrate the influence of the industrialists during the period. On the eve of the Korean War, they lobbied intensively within the government

²⁸ Assessoria Econômica was responsible for elaborating studies and projects and for supplying direct advice to the president.

²⁹ CACEX (Department of Foreign Trade of Bank of Brazil), created in 1953, was more insulated.

³⁰ SUMOC (Superintendence of Money and Credit) was the organ responsible for the control and supervision of the monetary and financial policy.

and participated in a definition of the imports necessary to protect the country against the risk of a long war (Leopoldi, 2000: 144; 191). In 1953, the industrialists criticised strongly the adoption of Instruction 70 of SUMOC, a law that created a multiple exchange rate regime, without previous consultation with the representatives of the class. After that, the class had access to important issues of the foreign exchange policy, including changes in Instruction 70³¹.

During the Kubitschek government, the industrialists maintained important channels to introduce their demands and had access to an area that was strategic to their interests, that of tariff policy. Although the foreign exchange policy became more insulated, the industrialists had a seat in the Council of Tariff Policy (CPA). Furthermore, the communication between business groups and government was favoured by the creation of the Groups of Work and Executive groups, which brought together representatives of the public and private sectors to elaborate and implement industrial policy in the respective sectors.

In conclusion, business influence was intense during the period. Although the state increased insulation in certain areas, the industrialists had important channels to introduce their demands and pressure for their interests. As Leopoldi (2000) shows, the industrial bourgeoisie, although not a hegemonic force, had influence and the government could not disregard their interests. Although the bureaucracy achieved autonomy in certain issues and was able to adopt unpopular measures such as Instruction 113 of SUMOC, it had to negotiate with the industrialists and offer concessions in other areas, such as in the tariff policy. In brief, as Leopoldi (2000) concludes, the industrialists' influence is an important element to understand the economic policy in the period 1930–1960. Their interests played a key role in the definition of a pattern of

³¹ During the Café Filho government (1954-55), the industrialists strongly criticised Instruction 113 of SUMOC, which authorised the importation of machine and equipment without exchange rate cover, thus registering these imports as foreign investment. The industrialists accused the measure of giving substantial advantage to foreign enterprises and, consequently, of provoking the increase in foreign control over national economy. An important consequence of Instruction 113 was that it reduced the influence of the business class over the foreign investment policy (Leopoldi, 2000: 247-248).

economic policy marked by high tariffs, overvalued exchange rate and a permissive treatment of inflation.

Conclusion.

The factors emphasised above, such as ideology, the role of the technicians, the influence of the industrialists and the international constraints are very important to an understanding of the lines of economic policy adopted in Brazil. In order to complete an account of the determinants of the process, it is necessary to emphasise the challenges and difficulties which marked the first decades of industrialisation. In the 1930s, in face of the serious crisis that shook the structures of the agrarian export economy, the state was called to play many functions in the restructuring of the economic system. In the following years, the state deepened its intervention in the economy, addressing issues considered critical to national development.

In those years, the international context remained highly complicated, a reflection of the effects of war and of the immediate period of reconstruction. These characteristics of the world order eliminated the possibility of a smooth integration of Brazil into the international market and of a program of international aid necessary to finance a balanced process of development. In that context, liberal tendencies, as they emerged at the end of the Second World War, did not last more than a couple of years.

I believe that the respective challenges, which included the urgent necessity of public investments in infrastructure, were very important in determining the choices of the Brazilian presidents and the characteristics of economic policy in the post-war period. That context, as the difficulties faced by the Dutra government illustrate, demanded a strong state and a process of intervention able to correct the unbalances of the process of industrialisation. In addition, the government suffered the pressures of the industrialists, workers and conservative groups, while the Congress vetoed the necessary

reforms. And last but not least, the governments faced the risk of military coup, in a democratic system which did not have deep roots.

In such a context, it is not difficult to understand the option for accelerating the process of economic development. The respective presidents, who believed in the critical role of state in the modernisation of the country, prioritised increasing public investments and incentives to private capital. Kubitschek, for example, had been a very entrepreneurial governor and had ambitious plans, as well as the initiative and ability to promote a substantial leap in economic development. After the political difficulties and the attempted coup which marked his inauguration, he was not willing to give up his *Target Program* in order to adopt a program of stabilisation.

In conclusion, the international context, the political culture, the role of the technicians and the influence of the social groups, especially the industrialists, were decisive factors to explain the pattern of economic policy adopted in Brazil in the period 1930-1960. In the face of the challenges and of the political pressures, a very strong external influence was necessary to force the policy makers to change the directions. As seen, the international community did not do this, at the same time that the developmentalist ideology gave legitimacy to practices which gave stabilisation and adjustment secondary importance.

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