ABSTRACT

This is a study of developmentalism as the ideology that guides economic policy in Brazil. The focus is the military regime that ruled the country from 1964 to 1985. The main argument is that, contrary to what most of the literature says, the military coup did not represent a fatal blow to developmentalism. This work summarizes the history of developmentalism and its consolidation to show that, by the time General Castelo Branco took over in 1964, developmentalism was so deep-seated in the Brazilian economic thinking that even a president with ample access to coercive instruments could not eliminate it. This thesis demonstrates that developmentalism resisted and returned much stronger in the subsequent military government.
# TABLE OF CONTENTS

INTRODUCTION ...........................................................................................................................1

THE ORIGIN OF DEVELOPMENTALISM IN BRAZIL .................................................................8
  Background ..................................................................................................................................8
  Estado Novo and the Origin of Developmentalism .................................................................9
  The End of Estado Novo and the Re-Democratization Debate .............................................13
  The Liberal Comeback of the Dutra Years .............................................................................17

DEVELOPMENTALISM IN VARGAS’ DEMOCRATIC GOVERNMENT .........................................23
  The First Years ............................................................................................................................23
  Vargas’ Demise ...........................................................................................................................26
  Developmentalism During a Turbulent Transition .................................................................31

JUSCELINO KUBITSCHEK, THE TARGETS PROGRAM, AND THE GOLDEN YEARS OF
DEVELOPMENTALISM ...............................................................................................................36
  Brasília: The Synthesis of Developmentalism ........................................................................38
  Developmentalist Thinking in the Golden Years ....................................................................42
  A Balance of the Targets Program ..........................................................................................50
  Paying for the Targets Program .............................................................................................51

THE ESCALATION OF BRAZIL’S POLITICAL AND ECONOMIC CRISES .......................54
  Jânio Quadros ..........................................................................................................................54
  João Goulart ...............................................................................................................................55
  The Crisis of Developmentalism ..............................................................................................58

THE MILITARY REGIME: 1964 – 1985 ....................................................................................63
INTRODUCTION

Developmentalism is the ideology of overcoming national underdevelopment through a state-led strategy of capital accumulation in the industrial sector. More specifically, it prescribes import-substituting industrialization (ISI) to promote development according to priorities set by the state, in a process supported by rapid expansion of capital—mainly via foreign, private and public, sources of funds.

As with most topics in academia, there is no consensus over which historical period is characterized as developmentalist in Brazil. Sikkink places developmentalism specifically within the administration of Juscelino Kubitschek (1956-1961), while Bielschowsky describes the “cycle of developmentalism” as beginning in 1930 with Getúlio Vargas and ending in 1964 with the military coup d’état. One thing that much of the literature agrees on is that developmentalism had lost its grip on government by the time the armed forces seized power in 1964.

This study draws heavily from the indispensable contributions of Bielschowsky and Sikkink, but intends to show that developmentalism goes much further than the “golden years” of Juscelino Kubitschek and beyond the military takeover in 1964. As the history of developmentalism is summarized in this study, it will be revealed that developmentalism was able to survive each attempt to diminish it and tended to strengthen its argument and resurge stronger every time. This happened, for instance, after the efforts of the government of Eurico Gaspar Dutra (1946-1951) to liberalize the economy. It would happen again with the end of the administration of General Humberto de Alencar Castelo Branco (1964-1967).

---

3 Bielschowsky, *Pensamento Econômico Brasileiro*.
The objective of this work is to demonstrate that by the time the first authoritarian government took office in 1964, under Castelo Branco, developmentalism was so ingrained in the Brazilian economic thinking that even a president with ample access to coercive instruments could not eliminate it. As a result, developmentalism came back “with a vengeance” still in the subsequent military administrations.

A few works support the claim that the military regime was developmentalist. For Vera Alves Cepêda the “heyday” of developmentalism was between the 1950s and the 1970s. Paulo-Tarso Flecha de Lima talks about the economic policies of the military regime as developmentalism “with a vengeance.” Jennifer Hermann says the development plan devised by Delfim Netto, and responsible for the economic “miracle” in the Costa e Silva (1967-69) and Médici (1969-73) administrations was “clearly developmentalist.”

For practical reasons, this thesis will focus on the military regime. However, it would be interesting to see other works pick up on where this study stops and analyze whether developmentalism survived re-democratization. It is my suspicion that it did to various degrees depending on who was leading the country, and often according to international and regional tides.

It is important to mention that there is a current in the literature that says developmentalism ended in 1964 but made a comeback in a new form with the presidency of

---

5 Paulo-Tarso Flecha de Lima, “Liberalism Versus Nationalism.”
7 Jorge G. Castañeda, “Latin America’s Left Turn,” Foreign Affairs, May/June 2006; Hector E. Schamis, “A Left Turn in Latin America?: Populism, Socialism, and Democratic Institutions,” Journal of Democracy 17 (October 2006); Cynthia J. Armon, José Raúl Perales, ed. The ’New Left’ and Democratic Governance in Latin America (Washington D.C.: Woodrow Wilson International Center for Scholars Latin American Program, 2007). In the early to mid-2000s, the majority of the population in Latin America lived under left-of-center governments, prompting many scholars to talk of a “new left” or a “pink tide.” Castañeda identifies two lefts in the region. Schamis argues they are more nuanced. The articles compiled and edited by Armon and Perales deal with several issues including an explanation for Latin America’s turn to the left, and the differences between “new” lefts and “old” ones. They also highlight the specificities in the various Latin American leftist governments of the 2000s while looking for a “common thread.”
Luiz Inácio Lula da Silva (2003-2011) and his successor Dilma Roussef (2011-). This group of developmentalists is trying to learn from past mistakes. Their efforts include an attempt to end the association between developmentalism, populist leaders, and fiscal irresponsibility.

These recent propositions are called new developmentalism, or neo-developmentalism. They focus on the export of manufactured goods in order to increase the pace of capital accumulation with the purpose of facilitating technological expansion, deemed necessary for development.

Although their name suggests something original, what is being proposed—and the justifications used—is exactly the same policy and justification combo of the Plano Estratégico de Desenvolvimento (Strategic Development Plan), or PED, of 1968. This plan was devised by the economist Delfim Netto and his team under the presidency of General Costa e Silva and led to the “economic miracle” of 1968-1973. Like the “new” developmentalist proposals, the PED took advantage of favorable international conditions to implement policies that called for higher protections of the internal market, combined with exports of manufactured goods, in order to expand capital used to promote increased access to technology, necessary for the the next phase of development.

For that reason, if one can talk of new developmentalism, as opposed to simply developmentalism, its origin should be identified as the moment of the implementation of the PED. One difference that must be noted, though, is that at least until 2014 high inflation, with subsequent increase in inequality, was not an element of developmentalist efforts in the last

---

8 Luiz Carlos Bresser-Pereira and Daniela Theuer, “Um Estado Novo-Desenvolvimentista na América Latina?,” Economia e Sociedade 21 (December 2012).
fifteen years. In 2015, yearly inflation reached 10.67%, the highest since 2002.\textsuperscript{11} This rate is modest when compared to the heights reached throughout the military governments, especially the three-digit rates of the 1980s. This legacy was transferred to the succeeding civil governments and reached four digits in the early 1990s.

Therefore, despite evidences that most military governments were developmentalist, new-developmentalists claim the ideology is returning to the scene only now, after a long break that started in 1964 with the military coup. One likely reason for their claim is that, understandably, they do not want to associate their preferred policies with authoritarian military governments. That said, new developmentalism is identified here only briefly, to alert the interested reader to the existence of this recent literature, and to restate the argument that developmentalism was alive and well from the mid-1960s to the mid-1980s.

However, new developmentalism is beyond the scope of this work, which ends with the election of Tancredo Neves in 1985. Similarly, it must be made clear that the choice to conclude this study with the events of 1985 in no way implies developmentalism ends there. The focus on the dictatorship years of 1964-1985 was simply a practical one, since it is the main point of this study that the first authoritarian government tried unsuccessfully to end developmentalism only to have it reinforced by its military successors.

Developmentalism is the dominant ideology guiding economic policy in Brazil. An extensive literature has covered the topic of ideology,\textsuperscript{12} though the field could benefit from a


higher volume of recent efforts. For the purpose of this thesis it is enough to say that ideology is a lens that informs people’s perceptions of the world. It does not preclude choice by any means. On the contrary. The fact that people have agency, is one reason why it is so important to understand ideology. Choices are informed by experiences and circumstances, which include the ideologies that surround individuals.

In order to understand how developmentalism became Brazil’s dominant economic ideology, it was important to study the history of this ideology and by which process it reached its status. Its origins in the turn of the 20th century, its consolidation beginning in Vargas’ Estado Novo, and its pinnacle during Kubitschek’s “50 years [of development] in 5” years of government. After its apex in the 1950s, developmentalism suffered some setbacks in the 1960s. However, it will be demonstrated that this did not mean its end. Despite efforts by General Castelo Branco to liberalize the Brazilian economy once and for all, those attempts were not successful and developmentalism came back stronger in the following military governments, as it had every time efforts were made to end it.

Therefore, the first few chapters of this work will summarize the history of developmentalism, until the culmination of this study, with the period that falls within the military regime (1964-1985). But to understand why developmentalism is the ideology that dominates economic thinking in Brazil, it is useful to first identify how Brazilians think about the state. According to Alfred Stepan, organic-statism is the dominant point of view.

Organic-statism advocates an active state, responsible for the common good. Although organic-statism is not inherently anti-democratic, it lends legitimacy to non-liberal

---

13 The summary of developmentalism’s history is based mostly on Bielschowsky, *Pensamento Econômico Brasileiro.*

14 Stepan, *The State and Society.* This way of thinking politics is present all over Western Europe, but is especially prominent in the Iberian countries and its former colonies. Influences to organic-statism include Aristotle, Roman law, medieval natural law, and contemporary Catholic social values.
formulas of government. Such perspective is a rich ground for the flourishing of concepts like developmentalism.

In the organic-statist point of view, state leaders know what the common good is. For that reason, there is not much need for a pluralist process formed by independent interest groups that voice their needs to the government. Another non-liberal characteristic lies on the fact that the legitimacy of the state is evaluated much more by its pursuit of the common good than by elections or its representation of group interests.

Despite its focus on the common good and its relatively low emphasis on procedure, organic-statism rejects Marxism; in part because of the emphasis Marxism places on class conflict. Such struggle goes against the organic-statist ideal of the harmonious community. Additionally, state interventionism is more limited in the organic-statist arrangement than in Marxism because of the “principle of subsidiarity.”

This principle stipulates that while the state is “the most perfect political community,” the individual, the family, and private association still have an important role to play within the “organic whole.” Therefore, the state has more legitimacy to penetrate into society under organic-statism than under liberalism, but the principle of subsidiarity poses some limits to state presence.

Organic-statism, then, allows for a “limited pluralism” in the form of semi-autonomous functional groups. Some examples include Vargas’ corporatist labor structure, the system of autarquias, also initiated by Vargas and expanded during the military regime, and the bureaucratic clusters, or “rings,” of the bureaucratic-authoritarian system. The latter

15 Stepan, The State and Society.
16 Stepan, The State and Society, 35.
is more relevant to this work and constitutes a cooptation mechanism. It gives a space for private interests to provide input within the government structure, such as through committees or advisory groups.\(^{18}\) These semi-political organizations have a participation in the state but are not allowed the independence of the pluralist system.

Hence, organic-statism, does not go as far as to promote the liberal state and classical capitalism. These are rejected because they do not allow enough space for the state to promote social stability. The organic state must have an intermediary role between classes, to further the common good and avoid the abuses thought to be associated with capitalism. Despite the organic state’s concern with stability, the common good is its main priority. The pursuit of the common good, then, justifies rapid structural change promoted by a strong state, regarded as having an autonomous, “architectural” role.\(^{19}\)

In sum, the active state, responsible for the common good, places strong limitations on laissez-faire, but is equally constrained by the principle of subsidiarity. Therefore, the Brazilian organic-statist view of the polity is highly conducive to nationalism and to the birth and incorporation of ideas such as positivism, corporatism, tenentismo, and eventually developmentalism.\(^{20}\)

To demonstrate how much developmentalism permeates Brazilian economic thought it is necessary to describe how the ideology came to being in the country, and what ideas and events influenced its formation, maturing, and consolidation over the decades. This will be done in the chapters that follow.\(^{21}\)

---

\(^{18}\) Fernando Henrique Cardoso, “On the Characterization of Authoritarian Regimes in Latin America.”

\(^{19}\) Stepan, *The State and Society*.

\(^{20}\) Pedro Cezar Dutra Fonseca and André Ferrari Haines, “Desenvolvimentismo e Política Econômica: Um Cotejo entre Vargas e Perón,” *Economia e Sociedade*, 21 (December 2012); Hale, “Political Ideas and Ideologies in Latin America;” Thomas E. Skidmore, *Brazil: Five Centuries of Change* (Oxford: Oxford University Press, 2010). For an explanation of positivism see Hale. For the influence of Positivism on Getúlio Vargas see Fonseca and Haines. Skidmore is a good source for both positivism and tenentismo. The author explains how the latter came to be and what influence it had in important political events and political thought especially in the 1920s and 1930s.

THE ORIGIN OF DEVELOPMENTALISM IN BRAZIL

Background

In the 19th century, Brazil’s economy, like that of the rest of Latin America, was based on the export of primary goods. Typically, one or two major products sustained the economy for some time, until market conditions changed and a different monoculture emerged. The heavy reliance on the export of a single or a few primary commodities made the economy very vulnerable to volatile international trade and politics. Nonetheless, the elites defended free trade and liberal economic principals. They justified this model by pointing to Brazil’s “agrarian vocation” according to the law of comparative advantage.22

However, since the late Empire, an industrialist ideal started to manifest itself in Brazil. Intellectuals began to dispute the logic of comparative advantage and call for the government to stimulate domestic industry and use more caution in economic relations with foreign countries. Their critique of current trends included a denunciation of free trade and assaults on liberalism. They generally used language that associated industry with prosperity or progress. The attacks on free trade accompanied a call for protectionism and government intervention in support of the industrial sector, often within a nationalist and anti-imperialist framework. They advocated tariffs and support through credit and fiscal exemptions.23

Smith, and James Naylor Green, Modern Latin America (New York: Oxford University Press, 1992). The main source for the Vargas and Dutra years was Bielschowsky. Additionally, the various authors in Giambiagi and Villela were the most reliable sources of data and summaries of key economic policies and events throughout the thesis. Several works by Skidmore were used throughout for historic details, and as guides to the politics behind economic policy making. For this section, the most used were Skidmore 2010 and Skidmore et al. 1992. Many other authors were important to the elaboration of this work and will be referenced as they appear in the text.


23 Love, “Economic Ideas and Ideologies in Latin America since 1930;” Bielschowsky, Pensamento Econômico Brasileiro.
The first federal incentives for industrialization date to 1890, when a tariff revision gave a few minimum protections to domestic manufactures from foreign competition and reduced duties on capital goods. At the turn of the century, industrialization gained some momentum, and, by 1920, Brazil had over 13,000 manufacturing businesses. While the industrial sector and the arguments in its defense were still weak and unimportant, the first advocates of industrialization had planted the seed for a nationalist critique that would be ready to sprout under the right conditions.

Estado Novo and the Origin of Developmentalism

The Great Depression of 1929 led to drastic political, economic, and ideological changes in Brazil. The economic impact was devastating for the entire region. Foreign capital practically disappeared from Latin America, while growing protectionism around the world meant reduced opportunities for exports. The international crisis left Brazilian coffee growers with a harvest they could not sell and the government with a deepening balance-of-payments crisis.

The administration of president Washington Luís did not come to the rescue of the coffee growers. Instead, he maintained convertibility in an attempt to please foreign creditors. This policy lacked the support of any major social class in the Brazilian society and exacerbated tensions that had been building since the presidential elections of 1930.

On that occasion Washington Luís’ political circle supported the election of a fellow São Paulo politician to office instead of maintaining a long-standing agreement to alternate power with Minas Gerais. In response, Minas Gerais supported a candidate from Rio Grande do Sul, Getúlio Vargas, who lost the elections. However, as popular discontent with

26 Skidmore, *Brazil*. 
Washington Luís’ government increased, Getúlio Vargas and his supporters saw an opportunity to oust the president and take over the presidency. The military deposed Washington Luís and passed the presidency to Vargas.

Nationalism, which had been gaining momentum for a while, acquired renewed support after the crash of 1929. This was reflected in economic ideas. For instance, there were increased calls for tariffs, for state planning, and for keeping natural resources under state control. Vargas took advantage of the general mood and initiated several policies to weaken the states and concentrate power in the hands of the central government (and himself). He also began an effort to modernize the state.

For instance, in 1936 he created the Departamento Administrativo do Serviço Público (Public Service Management Department), known as DASP. This was the first administrative system for civil service in Brazil. Exams were instituted to try to make the process more meritocratic. While patrimonialism was far from extinguished by this system, it did attract a considerable number of in highly professional and knowledgeable bureaucrats who came to control policymaking.27

In 1937, Vargas performed what many call a “coup within the coup.” He had military support to close down the Congress and govern in a full-fledged dictatorship, which he called Estado Novo (or New State). It was the final blow to the liberalism of the Old Republic. Vargas’ ascendance in 1930 and the institution of Estado Novo represented a break with the hegemonic political order, allowing new actors to be admitted into the restricted group of political elites previously dominated by regional oligarchs. Among the newly enfranchised actors were the top commanders in the armed forces and a new civil and military technocratic elite.28

28 Skidmore, Brazil.
After the establishment of Estado Novo, the state became heavily involved in censorship and repression, as well as in state interventionism. Vargas intensified the efforts to strengthen the national government and established several institutions for the elaboration and control of the policies of the new centralizing state. In the economic area alone, starting in 1938, Vargas created six planning organizations of national reach, two credit agencies within the Banco do Brasil, and several state-run corporations, most notably the steel company Companhia Siderúrgica Nacional (CSN) in 1941, and the ore miner Companhia Vale do Rio Doce (CVRD) in 1942.

The civil and military technocrats employed in those state enterprises and planning organizations began to deal with the problem of development in their jobs and to exchange ideas on the subject. Consequently, the period was marked by a first, however limited, awareness of the problem of industrialization on the part of an emerging technocratic elite. It was at this time that a few fundamental ideological elements of developmentalism appeared almost simultaneously in Brazil. The ideas were similar to, but went beyond the industrial principles of the turn of the century.

The main argument was that it is possible, even imperative, to create an integrated industrial sector in Brazil, capable of producing domestically the parts and articles needed for the manufacture of final products. Additionally, it was believed that it is necessary to implement mechanisms that allow the concentration of resources required for investments in heavy industry. Advocates of this idea called for banks dedicated to the financing of

---

29 Carteira de Crédito Agrícola e Industrial (Creai), founded in 1937, was the first official agency in Brazil responsible for providing credit for the industrial sector, and the Carteira de Exportação e Importação (Cexim), instituted in 1941, was in charge of providing financial assistance for imports and exports.

30 Bielschowsky, Pensamento Econômico Brasileiro; Trebat, Brazil’s State-Owned Enterprises.

31 For this reason, Bielschowsky calls the period from 1930 to the end of Estado Novo “the origin” of developmentalism, although it was not yet an articulated and well-defined project.
industrialization. To this end, many defended the creation of new taxes or proposed using funds from social security to capitalize those banks.\(^{32}\)

Although the emerging developmentalist current agreed on the fundamental notions described above, from the beginning there were some differences when it came to specifics. One group was more nationalist with respect to the role of foreign investments in Brazil. Bielschowsky and Sikkink characterize them as nationalist developmentalists. This group was in favor of nationalization of companies in the areas of energy, mining, transportation, and public service. Nationalist developmentalists were concentrated in the public sector, but some in the private sector shared this opinion.\(^{33}\)

The other view was less nationalist; its proponents believed that the participation of the private sector and foreign capital was essential to the development project. They supported state intervention only in extraordinary situations. Sikkink calls this group cosmopolitan developmentalist, a terminology proposed by Helio Jaguaribe (1962) and later adapted by Lourdes Sola.\(^{34}\)

Bielschowsky subdivides this group into two: the “non-nationalists” in the public sector and the so-called “private sector developmentalists.” Although both groups shared the same views on the participation of the state in the economy and the role of foreign capital, Bielschowsky argues that the private sector developmentalists went further in their defense of the interests of the segment they represented.\(^{35}\)

This paper will use Sikkink’s expressions and will group developmentalists into nationalists and cosmopolitans. This terminology is clearer and accurately represents the most important difference between the developmentalist camps, which is the role of foreign investment in the economy.

\(^{32}\) A more complete description of these first developmentalist ideological elements can be found in Bielschowsky, *Pensamento Econômico Brasileiro*, 250-52.


\(^{35}\) Bielschowsky, *Pensamento Econômico Brasileiro*, 77.
Brazil entered World War II on the side of the Allies, but mainly for pragmatic reasons. The U.S. had offered some benefits to Brazil – including their help in building the steel company, CSN. Brazil’s involvement in the war had a major impact on the country. Fighting for the winning side greatly increased the prestige of the armed forces. It also strengthened the ties between the U.S. and Brazilian militaries. Also, having been the only Latin American country to enter the war, Brazil felt it deserved more respect abroad and hoped for political and monetary rewards from the United States.

The impact on the economy was a disruption of the shipping lanes. Importing became very difficult. This drove Brazilian consumers to domestic products. At the same time, the U.S. was providing war-related technology and equipment. The combination of access to technology and a protected domestic market led to a sharp increase in industrialization. As the war forced the country to ration some resources, industries became more tightly controlled by the federal government, which helped to accelerate the process of government centralization initiated by Vargas years earlier. Finally, the war mobilization led to increased demand. However, as noted above, this demand could not be met by imports, which were restricted due to the war. This situation resulted in an overheated economy and a surge in inflation.36

The war had major political consequences. From the moment Brazil began to prepare to send troops to fight for democracy in Europe alongside the Allies, the contradiction with the dictatorship at home became apparent. Vargas was able to use the war as an excuse to postpone elections in 1943, but as soon as the conflict was over (in 1945), support for

democracy became too strong to ignore. Vargas was forced to resign, and a process of redemocratization ensued.37

During redemocratization, new parties formed while old ones recovered their legitimacy. The latter group included the Communist Party, which was reentering the political field. Their economic vision prioritized struggle against imperialism. Three new political parties emerged in 1945. The National Democratic Union (União Democrática Nacional - UDN) was formed by a liberal constitutionalist group, opposed to Vargas. The Social Democratic Party (Partido Social Democrático - PSD) supported Vargas and was led by political bosses of the leading states. The Brazilian Labor Party (Partido Trabalhista Brasileiro - PTB) also supported Vargas and represented the newly organized urban workers. In addition to the establishment and reestablishment of parties, this period of democratization was marked by the elaboration of a new constitution.

The formation of new parties, the creation of a new constitution, and the freedom of speech enjoyed by the population for the first time in years, generated an environment that was very propitious to animated political and economic debates. On the economic front, there were heated discussions between those who favored a planned economy and groups that preferred liberal policies. Another important point of contention was whether Brazil should accept foreign capital for its investments.

Liberals argued that when the government allocates the country's limited resources to investments in industries, other areas are left lacking. Moreover, for this group, the state is an inept and wasteful manager. Developmentalists, on the other hand, disagreed with this claim and were very enthusiastic about state planning. However, after fifteen years in power, Vargas and his centralized policies were fairly worn out. As a result, acceptance for liberal

37 Vargas became a senator in 1946 and served in that position until 1951, when he was elected president.
ideas increased in the redemocratization period and in the first years of the Dutra administration.

Given the backlash against Vargas’ interventionism, strong support for state planning on the part of the private sector turned out to be essential to the legitimization of these ideas in this transition period. Industrialists were mainly developmentalists. Outside industry, it is also unlikely that the Brazilian private sector strongly opposed state intervention. Farmers were well aware of their dependence on state protection. Coffee growers, for instance, had a long history of dealing with crises using state support.38

On the topic of foreign participation in the economy, liberals thought that, due to Brazil’s lack of capital and technical knowledge, foreign investments were essential for economic success. Cosmopolitan developmentalists agreed with the liberals on this matter. Meanwhile, nationalist developmentalists and socialists knew the national private sector lacked the resources for important investments but were against foreign participation and argued for state action in those areas. They maintained that foreign capital is classic imperialism, especially when applied to the mining and energy sectors.

Therefore, by the 1940s Brazilians generally believed that private initiative did not preclude state intervention. The government still had to support the private sector and act in a supplementary role in areas where the private sector fell short. This was a common perspective even in the most liberal speeches and comments. For instance, one of the directors of the São Paulo Chamber of Commerce, Machado Neto, believed that it was no longer possible to choose between state planning and laissez-faire economy, but only

---

38 Bielschowsky sees the dispute between liberals and developmentalists of the re-democratization period not just as an ideological disagreement, but a struggle for influence in the national decision-making. For that reason, ideological differences were not so deep as they appeared in the surface. What was really at stake was political influence.
between good and bad planning. For Machado Neto and many of his contemporaries, modern economy, democracy, and planning could and should coexist.\textsuperscript{39}

As was mentioned earlier, after fifteen years in power, Vargas’ political support was somewhat reduced. For that reason, the second half of the 1940s was a period of reaction against his government’s interventionism. Liberal ideas enjoyed more support in those years. Nonetheless, debates over land reform helped keep the developmentalist point of view alive during this time of liberal prevalence.

The topic of rural reform was less central to the developmentalist ideas at that moment than it would become in the beginning of the 1960s. For now, it is enough to mention that an argument emerged at that time suggesting that because most of the population still lived in the countryside, low rural productivity led to a limited internal market, preventing further economic development. Hence, the idea that Brazil needed to expand its internal market in order to continue its industrialization process and maintain growth was first being suggested and would soon gain traction.\textsuperscript{40}

Many factors contributed to a broad acceptance of state planning and moderate state intervention at a time when liberalism was strong in Brazil. First, the fragility of the domestic private sector was widely recognized. Second, Brazilian elites paid close attention to the situation in the developed world. During the war, those countries had successful experiences with state intervention, leading many in Brazil to conclude that state planning may be compatible with capitalism.

Despite ideological support, developmentalism suffered a lot of practical setbacks. The first obstacle came during the provisional government of Pires do Rio, who practically ended the system of import licensing in 1945. Other setbacks occurred in the course of the

\textsuperscript{39} Cited in Bielschowsky, \textit{Pensamento Econômico Brasileiro}, 300.
\textsuperscript{40} Bielschowsky, \textit{Pensamento Econômico Brasileiro}. 
democratic government of General Eurico Gaspar Dutra, notwithstanding his background as Vargas’ war minister and his affiliation to PSD.\textsuperscript{41}

The Liberal Comeback of the Dutra Years

When Dutra took office in 1946, the public mood was quite optimistic. Brazil had just become a democracy and had recently been part of a winning war effort. Besides, based on the liberal principles of Bretton Woods, political leaders expected a rapid post-war reorganization and recovery of the international economy, which would bring favorable conditions for Brazil’s exports. Also, the country had concentrated a lot of foreign exchange during World War II. Finally, Brazil was expecting more reserves to enter the country in the form of compensation from the U.S. for Brazil’s participation in the war. As soon as he took office, Dutra tried to clean the house in anticipation for the awaited North American investments. He concentrated his efforts on fighting inflation and balancing the budget through austerity and contractionist monetary policies.\textsuperscript{42}

In his initial move towards austerity and in an attempt to limit Vargas’ influence in the new administration, Dutra took steps to reduce the size of government. He closed a number of economic planning organisms within the administration, which had been important forums for developmentalist ideas. Although developmentalism lost some ground, the advocates of planned industrialization felt compelled to defend their ideology from the dominant liberalism of the time. In this process, they began to elaborate a more cohesive argument.\textsuperscript{43}

\footnotesize
\textsuperscript{41} ibid.
\textsuperscript{43} Bielschowsky, Pensamento Econômico Brasileiro.
The optimism that had guided Dutra’s liberal policies soon proved to be an illusion. Half of the country’s reserves were in gold, and the other half was composed mainly of inconvertible currencies. The financial assistance Brazil expected to receive from the U.S. after the war never materialized. U.S. priority was the reconstruction of Europe. To make matters worse, the reorganization of the international economy was taking longer than expected.

In June 1947, the government announced it had run out of convertible foreign currency, leading to dollar shortage and deep economic uncertainty. Under the circumstances, one option would be to devalue the Brazilian currency. Nevertheless, given the inelasticity of demand for coffee and the state of emergency, the government chose to implement controls on exchange rates and imports. In 1948, the government began to require import licenses, which were issued according to the government’s priorities. Advocates of liberalism accepted state interventionism until normal economic conditions were restored. However, the fact that a liberal-leaning government was taking such interventionist measures as a system of import licensing helped legitimize a greater role for the state.

The licensing system considerably reduced the deficit, and by 1949 the country had a small surplus. The combination of overvalued currency with import controls resulted in the protection of local entrepreneurs from foreign competitors in addition to a subsidiary effect that stemmed from the artificially cheaper imported capital goods. This led to an annual increase in industrialization of 9% between 1946 and 1950. However, the decision to avoid currency devaluation meant a loss of competitiveness and a contraction in Brazil’s exports.

Meanwhile, inflation increased rapidly. After falling to 2.7% in 1947, it reached 8% in 1948, and 12.3% in 1949. That same year, the public sector presented a large budget
deficit that continued into 1950. After being accused of inaction in the face of the economic crisis, Dutra gave in and released Plano Salte (1949) – an initiative for state-planned intervention. Many saw the Plano Salte as an admission by the Dutra administration that the state had an important role in the economy. However, proponents of state intervention saw the plan as weak and insufficient and Plano Salte failed to placate political opposition.

By the end of the 1940s, there was great pessimism regarding Brazil’s economic stability. Many believed the dollar shortage was going to persist. The sentiment was that the Brazilian state under Dutra was unprepared to face the challenges posed by development. The literature of the end of Dutra’s government reveals a growth of developmentalist arguments in support of a strong state capable of directing the economy. Nationalism was also on the rise again, mostly linked to discussions about natural resources and foreign capital.

The years between 1948 and 1952 were marked by a debate over what to do with the national reserves of oil. Some believed that foreign investments were necessary for the exploration of the national reserves of petroleum. On the other hand, nationalist groups, led by the armed forces, favored state monopoly in this sector. The discussion spread throughout the country and turned out to be an important platform for the advancement of nationalist developmentalist ideas.

One topic that was brought up frequently during the oil debate was the weakness of the domestic industrial sector, something that was widely recognized in Brazil. It was understood that the domestic private sector would not be able to take over massive investments in natural resources and public services. For that reason, nationalists argued, most enterprises in this area would have to be state owned.

The Clube Militar (Military Club) and the Campanha Nacional de Defesa do Petróleo (National Campaign in Defense of Petroleum), or CNDP, were important vehicles for

---

48 ibid., 27.
49 Skidmore, Brazil; Bielschowsky, Pensamento Econômico Brasileiro.
50 Bielschowsky, Pensamento Econômico Brasileiro.
spreading the nationalist developmentalist discourse. They defended the economic emancipation of Brazil through planned industrialization and argued for the need to keep natural resources under state control as an important national security measure. For years the nation heard, repeated, and got accustomed to those ideas.

The more radical groups in the armed forces believed foreign capital was only concerned with profits and did not have the national interest in mind. This discussion grew with the petroleum campaign, but soon spread to other mineral resources. Regardless of their level of radicalism, a great number of military officers favored the intensification of industrialization as a path to economic emancipation, sovereignty, and national security.

Another space for economic debates was the magazine *Conjuntura Econômica* (Economic Context) published by Fundação Getúlio Vargas (Getúlio Vargas Foundation). The magazine was the first periodical specialized in academic articles on economics and published works of various ideological tendencies. 51 Other important forums for developmentalist ideas were the Conselho Econômico (Economic Council) and the Departamento Econômico (Economic Department), both created by Roberto Simonsen inside the Confederação Nacional da Indústria (National Federation of Industries). 52

Starting in 1950, the Economic Department published the magazine *Estudos Econômicos* (Economic Studies), an important vehicle for developmentalist authors. For instance, the March edition published a classic article by Rômulo de Almeida about state economic planning. Some of the other editions issued summaries and preliminary versions of studies by UN’s Economic Commission for Latin America (ECLA). 53

In the end of the 1940s and beginning of 1950s, the economic literature began to reflect a prevalence of developmentalist thought. Ideas such as Brazil’s rural vocation, which

51 Bielschowsky, *Pensamento Econômico Brasileiro*, 324. Conjuntura Econômica published texts by Prebisch (1949), Singer (1950), and ECLA (1951). They also released works by liberals such as Viner (1951).
52 Bielschowsky, *Pensamento Econômico Brasileiro*, 323. After Vargas’ election in 1951, many of the members of the Council and the Department were absorbed by the national administration.
53 *ibid*, 323.
had been predominant in the turn of the century, were disappearing from publications and were seen as anachronistic.\textsuperscript{54} Those who defended the rural sector now talked about a need to balance industrial and agricultural activities and the necessity to modernize their economic segment. This shift away from the idea of rural inclination and toward a diversified economy did not pose a threat to the rural sector. On the contrary, it helped farmers to mobilize support within the government for investments. This meant a great acceptance for developmentalist ideas even what was formerly a liberal stronghold.

Just as developmentalism was becoming the dominant ideology in Brazil’s economic thought, the first studies by ECLA were published in Brazil.\textsuperscript{55} They gave methodological formality to ideas that were part of the Brazilian debate for a while and added a few new concepts to the developmentalist toolbox.

For instance, ECLA acknowledged the sweeping economic change that was taking place in the region regardless of political and social will. Their study introduced the idea of the deterioration of the terms of trade and affirmed that industrialization was the only way that underdeveloped countries could achieve technical progress and break their dependent relationship with advanced economies.

However, ECLA added, Latin America’s industrialization attempts were concurrent with structural problems in their economies, such as lack of diversification and low productivity. These conditions were the result of the region’s position as a peripheral economy, specialized on a few primary exports. The solution would be a decisive state effort on economic planning to implement rationality and efficiency in the allocation of resources.

\textsuperscript{54} Bielschowsky, \textit{Pensamento Econômico Brasileiro}; Hale, “Political Ideas and Ideologies in Latin America;” Skidmore et al., \textit{Modern Latin America}. More about Brazil’s idea of rural vocation in the 19\textsuperscript{th} and early 20\textsuperscript{th} centuries can be found in the works of Bielschowsky, Hale, and Skimore et al. Hale also talks about a related idea on the artificiality of industries in Brazil, which was common until the turn of the 20\textsuperscript{th} century.

\textsuperscript{55} ECLA was created in November of 1947. Their first studies were published in Brazil in 1949 and 1950. ECLA later became ECLAC (Economic Commission for Latin America and the Caribbean). The Portuguese and Spanish acronym has always been CEPAL—Comissão Econômica Para a América Latina (in Portuguese) or Comisión Económica Para América Latina (in Spanish).
When ECLA released its first studies, the commission's developmentalist disposition became apparent and was seen in Brazil as a legitimization of the ideology by a body within a prestigious international organization. It would not be long before the Brazilian economic literature began repeating ECLA’s arguments and talking about deterioration in the terms of trade and “deficitary tendency of the balance of payments.”

As was described above, the post-war period saw an upsurge of interest and participation on economic issues. At the same time, there was a sharp increase in scholarly and technical articles favoring planned industrialization, in reaction to the liberal comeback that was taking place. As developmentalists engaged in economic debates, they refined their argument and presented a more cohesive concept.

From 1948, Brazilian economic thought no longer reflected the same power structure and accommodations of the democratic post-war transition, nor the sentiments of uncertainty and hope for the normalization of the international economy. Instead, it was dominated by a doubt about the prospect of normalization of the economy and the possibility of solving the problem of dollar shortages.

This pessimism helped generate the mood for the increased popularity of developmentalist ideas. By the time Vargas took office in 1951 for a democratic term as president, this sentiment was pervasive and helped pave the way for the developmentalist surge of the Vargas administration and for the mature developmentalist ideology that would emerge in the years that followed.

---

During the 1950 presidential campaign, Getúlio Vargas accused the Dutra administration of neglecting industrialization and ran on the issue of development. Once elected president, he immediately made industrialization one of his top priorities. He made that clear in his Mensagem Programática (Programatic Message) – Vargas’ address to Congress for the opening of the legislative session of 1951.

The speech advanced several important developmentalist points. Vargas told Congress that the Brazilian economy was going through a structural transformation and that it was important to prepare the country’s economy for international uncertainties. He also defended state stimulus for national production. According to Vargas, “chronic deficits in the balance of payments” called for a policy of import substitution to promote intensive industrialization. In the address Vargas also explained the steps his administration would take to guide and promote capital accumulation necessary to foster industrialization and build basic infrastructure essential for the country's economic development. One of the specific steps proposed by Vargas was the creation of preferential groups within the industrial sector.57

The speech represented a milestone in the evolution of developmentalism. For the first time the nation’s president announced in a firm and detailed manner that the state would guide the economy and promote development. Vargas was very clear about his vision for the country and the steps he would take to get there. Indeed, the programs introduced in the

---

subsequent years followed the direction announced by Vargas in his Mensagem Programática.58

Dutra had left the government with high inflation and deficit in the public finances. However, coffee prices had recovered, and the international environment was getting better. The attitude of the U.S. government toward Latin America was also improving, particularly towards Brazil. A sign of U.S. good will was the creation of the Brazil-United States Joint Commission (CMBEU) in December 1950. The commission began its work in July 1951 with the purpose of designing development projects to be financed by the Eximbank and the World Bank.

With the goals of the Mensagem Programática in mind and with the expectation of receiving development assistance, Vargas assembled a team of talented technocrats to plan, implement, and oversee his economic policies. For instance, he created the Assessoria Econômica (Economic Council), which worked inside the presidential building, the Palácio do Catete (Catete presidential palace). The council was in charge of formulating technically and politically complex economic projects.

The president established another council, the Conselho de Desenvolvimento Industrial (Industrial Development Council), or CDI, specifically responsible for guiding investments in industry through the formulation of a sectorial plan. In support of the industrialization plans, Cexim, the office responsible for issuing import licenses, began to prioritize licenses for the purchase of industrial equipment and basic materials.

Vargas asked his Finance Minister, Horácio Lafer, to find capital for investments in infrastructure. With that objective, the administration created a plan and a fund for those investments. The fund would be administered by a new national bank, the Banco Nacional do Desenvolvimento (National Development Bank), or BNDE. The bank would also administer

58 More about the Mensagem Programática can be found in Bielschowsky, Pensamento Econômico Brasileiro, 339-41.
foreign resources destined to development. Therefore, Vargas built a new state apparatus, even larger than what he had assembled during Estado Novo.59

The principal forums for the discussion, planning, and implementation of Vargas’ economic policies were the Economic Council, BNDE, CMBEU, and Banco do Brasil (a bank). Cosmopolitan developmentalists concentrated mainly inside the BNDE and CMBEU. Nationalist developmentalists shared the BNDE with their cosmopolitan counterparts but dominated the president’s Economic Council. The two developmentalist currents had quite a lot in common. The main point of disagreement was, predictably, in regard to foreign capital. Even on this topic, nationalists did not oppose foreign capital completely, but believed infrastructure and mining should be reserved for state enterprises.

As to Vargas, he used a very inflammatory nationalist rhetoric at home while courting international banks for investments. For instance, in the aforementioned Programmatic Message Vargas denounced profit remittances by foreign companies operating in Brazil and the terms that guided those remittances. The issue of profit transfers, introduced by Vargas in that address, became a dominant theme in debates about economic development and was incorporated into nationalist claims of anti-imperialism in the following years. As a matter of fact, it can still be heard in Brazil today, although not with the same incidence and perhaps enthusiasm.

The favorable expectations of the beginning of the Vargas presidency – high coffee prices and renewed support from the U.S. – gave the president and his team of technocrats the confidence they needed to elaborate a well-defined government project. For the first two years of the administration, trade policy called for an overvalued, fixed exchange rate. Import licenses were maintained, but were relaxed for the first few months, and the administration began to prioritize articles needed for industrialization.

Vargas’ Demise

The economic scenery began to change in 1952. Export gains dropped by 20% that year, compared to 1951. The government reacted with a considerable restriction on the distribution of import licenses, but the level of imports remained high. As a result, 1952 closed with a deficit of 302 million dollars in the balance of payments, a severe shortage of foreign currency, and the accumulation of overdue commercial debt above 610 million dollars.\textsuperscript{60} The inflation rate went from 11% in 1951 to 20% in 1952.\textsuperscript{61}

The situation worsened after general Eisenhower won the elections in the United States in the end of 1952 and shifted foreign policy. Eisenhower prioritized fighting communism, taking attention away from programs designed to provide technical and economic assistance to developing countries. The Eisenhower administration did not honor loan commitments the Brazilian government thought the U.S. had made for the projects designed by the CMBEU. The commission came to an end shortly after.

The first two years of Vargas’ administration had been marked by political stability. Although Vargas resorted to populism to acquire political capital, this was not a destabilizing factor until 1952. The party line-up in Congress required the president to govern with moderation, and Vargas did so for the most part. But the economic reversals of the end of 1952 strengthened the hand of Vargas’ enemies, most notably those in the conservative party UDN. The economic and political pressures Vargas suffered made moderation harder to maintain.

In June 1953, Vargas tried to control the situation with an extensive ministerial reform. He nominated João Goulart for the Ministry of Labor, Industry, and Commerce.

\textsuperscript{61} Skidmore et al., Modern Latin America, 172-73.
Goulart was a friend of Vargas and a trusted figure among the labor unions. Osvaldo Aranha, a UDN sympathizer but also a long-time friend of Vargas, replaced Horácio Lafer in the Finance Ministry.62

In October of 1953, the government introduced new fiscal and monetary reforms with the implementation of Instruction 70 by the Superintendence for Money and Credit (Sumoc).63 Minister Aranha’s began his service determined to implement fiscal austerity. However, his plans were crushed by increases in public spending, particularly with salary raises for public employees and investments in infrastructure, necessary for industrial growth.

In 1953 most economic indicators disappointed again. GDP grew 4.7% that year, the lowest rate since 1947. The relatively modest growth was a reflection of poor performances in the agricultural and service sectors. Industry, however, grew 9.3% that same year, but that was not enough to carry the whole economy and avoid frustration. In spite of the slow economy, inflation went from 12% to 20.5% in 1953.64

Additionally, growing deficits in the balance of payments further exposed the country’s lack of import capacity at the levels required for the development project. Finally, infrastructure problems gained more attention as the prices of food and other agricultural items increased in the internal market. Most notably, transports were insufficient, and the energy crisis had reached its peak. As a result, living costs in the largest urban centers were increasing exponentially.65

The economic crisis weakened Vargas’ position politically. Despite the ministerial reform of June 1953, dissent between the opposition and the president’s supporters continued to intensify. The UDN spearheaded the attacks against the president, while their most vocal member, journalist Carlos Lacerda, led a campaign to drive Vargas from office.

62 Skidmore et al., Modern Latin America; Skidmore, Brazil.
63 Sumoc was a semiautonomous and powerful organism within Banco do Brasil responsible for monetary policy. For more details about Instruction 70 see Vianna and Villela, “O Pós-Guerra (1945-1955),” 32-35.
65 Skidmore, Brazil.
In addition to disputes over the economy, a debate about the creation of Petrobrás, Brazil’s oil company, became increasingly passionate. Nationalist developmentalists, communists, and other nationalist groups defended total state monopoly while cosmopolitan developmentalists, liberals, and the president argued for a mixed enterprise with a de facto control by the government in the top operations.

While UDN had always been conservative and ideologically closer to liberalism, the party switched its position in favor of the state’s total control over Petrobrás, in an attempt to steal the nationalist banner from Vargas. As a consequence, Congress passed the more radical version in 1953. This represented a major congressional loss for the already weakened president.

Inside the administration, Finance Minister Oswaldo Aranha and the Minister of Labor, Industry and Commerce, João Goulart, were pulling in opposite directions. The first called for austerity while the second pushed for populist redistributionist policies. One of Goulart’s recommendations was for an increase in the minimum wage. Vargas solved the dispute by asking Goulart to resign in February 1954. But the left, empowered by their victory over the creation of Petrobrás, attacked Vargas for giving in to imperialists. The president reacted with a 100% increase in the minimum wage, higher than what Goulart had asked for.66

The debate over Petrobrás had also destabilized Vargas’ hold on the military. The more populist actions toward the last months of his presidency only worsened his relationship with the armed forces.67 The military pressured Vargas and was ready for a coup. By early 1954, the image of the president had been severely damaged by the economic crisis, by corruption scandals involving members of his government, and by Lacerda’s daily inflammatory writings in his newspaper A Tribuna da Imprensa.

66 Skidmore et al., Modern Latin America, 173.
67 In addition to the increase in minimum wage, it is worth mentioning that Vargas had hinted he intended to organize rural labor.
In an attempt to defend the president, Vargas’ faithful bodyguard and chauffeur Gregorio Fortunato hired a gunman to kill Lacerda. Instead, he killed Lacerda’s bodyguard and air force major Rubens Vaz, and just injured the journalist in the foot. The crime was quickly linked to the presidential palace. This incident created a scandal that is believed to have been the final blow that led to Getúlio Vargas’ suicide with a shot through the heart on August 24, 1954.68

Vargas left a suicide note explaining his motives. Suddenly, public opinion was reversed in his favor. The country was filled with outrage against the president’s tormentors and pro-Vargas demonstrators filled the streets. The level of resentment was so intense that Lacerda left the country for an extended exile. The goal of Vargas’ opponents was not simply to oust the president, but to reverse his policies, dismantle his political network, and damage his image. But Vargas’ suicide led to an outcry of support for the deceased president and what he represented, only increasing his influence.

Therefore, Getúlio Vargas left a vast legacy for Brazilian politics, government institutions, national identity, work relations, and the economy. For developmentalism, he left a stronger state and an array of institutions within it prepared to plan and implement economic policies. He had begun those efforts to centralize and modernize the state in the 1930s.

By the time Vargas was elected in 1950, the country was more accepting of state intervention than ever before. Vargas took advantage of the general mood and reintroduced state planning organizations into the state bureaucracy on a much greater scale than what he had done in Estado Novo. The economic and political situation in the end of his government put the developmentalist ideology and its agenda at risk. However, with his tragic death,

68 Skidmore et al., Modern Latin America.
Vargas safeguarded his legacy, guaranteed the consolidation of the institutions he had built, and kept support for planned industrialization very much alive.

Vargas’ suicide created a situation that was favorable to those who had supported him. The technocrats inside the bureaucracy he had created were very successful in consolidating and expanding the space they had obtained since Vargas’ return to power in 1951. Their secured position allowed them to influence the country’s economic policies from their posts inside the BNDE, Banco do Brasil, and beyond, not only during Vargas administrations but for the decades that followed.69

Between Vargas’ suicide in 1954 and the inauguration of Juscelino Kubitschek in 1956, Brazil had three different presidents, all lacking the authority to take significant action to tackle the difficult economic problems the country was facing. Vargas’ vice-president, Café Filho, took office in August 1954 and would have presided over the country until 1956, but had to take a leave of absence in November of 1955 due to health issues. After his recovery, Café Filho tried to go back to his duties as president but was blocked by Congress. The president of the Chamber of Deputies, Carlos Luz, had taken the presidential seat.

However, Carlos Luz was president for only three days. He was planning the obstruction of president-elect Juscelino Kubitschek from office the following year. For that reason, War Minister Henrique Teixeira Lott forged a “preventive coup” to guarantee the inauguration of Kubitschek.70 The coup replaced Luz with the next in the line of presidential succession, Senator Nereu Ramos, who presided from November 11, 1955, until Kubitschek’s inauguration on January 31, 1956. Café Filho and the other caretaker governments maintained the bulk of economic policies and institutions of the Vargas

69 Bielschowsky, Pensamento Econômico Brasileiro.

70 General Henrique Lott was part of the nationalist group inside the army, as opposed to the cosmopolitan Sorbonne Group in the Army Superior War College, aligned with the UDN. Lott’s preventive coup undermined the power of the Sorbonne Group, which helped guarantee the stability of the Kubitschek presidency.
administration. Meanwhile, inflation continued to rise, while the balance of payments deteriorated.71

But one economic initiative of the Café Filho era was consequential to the next administration. The regulation on foreign investment, Instruction 113 of the Sumoc, was designed to attract foreign capital. It allowed the Department of Foreign Trade72 to give benefits to foreign investors as part of an effort to finance priority industrial sectors. One provision allowed Cacex to issue import licenses for capital goods without exchange cover. That meant those goods would be treated as additional foreign investment and could be paid for in local currency.

The deal was appealing to foreign investors because it increased the rate of return of investment. For Brazil, it seemed as a partial solution to the shortage of foreign exchange, since the country would be able to increase the purchase of industrial equipment without expenditure of foreign currency. However, local firms were left at a disadvantage, since only foreign companies could benefit from that provision.73

Developmentalism During a Turbulent Transition

Developmentalism reached a near consensus from 1948 to 1952, with liberals drawn back by the poor economic results of the Dutra years. In the end of that period, however, it was Vargas’ policies that started to produce unfavorable outcomes, leading to a liberal reaction in 1953. Nonetheless, the field of economic statistics was growing in Brazil, and results were often extensively publicized with many studies showing high industrial growth. People were exposed to those numbers, they listened to widely broadcasted speeches by

71 Skidmore, Brazil; Sikkink, Ideas and Institutions.
72 It is important to remember that the organism responsible for foreign trade at the time was Cacex, an agency inside the Banco do Brasil.
73 Sikkink, Ideas and Institutions.
public personalities and by representatives of respected organizations like ECLA and CNI, and they witnessed the transformations taking place in the industrial sector. All this combined to finally win over the intellectual, technical, and political elites. This trend becomes more evident in the economic literature as Vargas’ administration progresses.

As a symptom of the general acceptance of the idea of planned industrialization, the intellectual debate between liberals and developmentalists in the first half of the 1950s was no longer concerned with the legitimacy of industrial policies, but with their intensity. Discussions focused mainly on the monetary and exchange rate imbalances precipitated by the industrialization process. Economists on both sides had different understandings as to how much imbalance the economy can tolerate and for how long.

The disarray that the country faced in the final months of President Vargas’ administration and during President Café Filho’s short presidency further intensified economic debates, especially between nationalist developmentalists and liberals. The biggest dispute concerned monetary and exchange rate policies. The debates about inflation and balance of payments became increasingly linked to the broader topic of national economic development. This was the beginning of a debate between structuralists and anti-structuralists (or monetarists), in Brazil.\(^4\)

Liberals claimed that a combination of state overinvestment and credit expansion was causing inflation, which, in turn, was leading pressure on the balance of payments. For Liberals, not only ISI does not reduce deficits in the balance of payments, but it actually aggravates the problem, due to higher demands for imported capital goods. They argued for a stabilization program, a cutback on state intervention in the economy and a reduction on ISI. But they favored ISI policies for oil, wheat, and paper.

\(^4\) Bielschowsky, *Pensamento Econômico Brasileiro*. 
While nationalist developmentalists agreed that inflation was putting pressure on the balance of payments, they disagreed with the solution proposed by liberals. For the nationalist developmentalists, clearly influenced by ECLA’s arguments, the nature of Brazil’s monetary and exchange rate imbalances had a structural origin. For that reason, they did not believe that market forces could solve the country’s economic problems. Development depended on a long-run project by a decisive, planned action by the state. With that view, nationalist developmentalists solution for the inflation problem was the opposite of what liberals defended: increased state planning and the intensification of ISI.

Not every nationalist developmentalist in Brazil was structuralist. In fact, there were numerous groups participating in the economic debate of the time that held positions intermediate to those described above. The most important intermediate position was the one that came from the CMBEU’s report in 1953.

The two top Brazilian economists in the commission were Roberto Campos and Octávio Dias Carneiro. The CMBEU report dedicated the first two chapters to a diagnosis of the Brazilian economy. The commission determined that the biggest challenges to Brazil’s development were its terribly inefficient logistics system and a deficient supply of energy. They pointed to the urgent need to find a way to take advantage of the country’s supply of fuels.

Some of its conclusions on inflation seemed to have been copied right out of an ECLA’s handbook. The report stated that historical, structural, and institutional factors feed monetary instability. Part of the problem was the country’s inability to redirect its exports to mitigate the inflationary process caused by fast industrialization. Additionally, importing agricultural production methods from advanced economies of different regions and distinct

---

75 Although Campos’ texts suggest that he was starting to lean toward stabilization policies, at the time of the report, he maintained a developmentalist emphasis.

76 Bielschowsky, Pensamento Econômico Brasileiro, 382. After their conclusion that transportation and energy were the two main obstructions to Brazil’s development, the CMBEU prepared 38 projects for investments on these two sectors alone.
climates was ineffective. Finally, the lack of foreign currency for imports led the government to allocate its scarce resources to importing capital goods at the expense of consumer goods.\textsuperscript{77}

Despite the similarity with many of ECLA’s conclusions, the CMBEU report was not structuralist. The group drew attention to some of the structural problems in Brazil’s economy, but called for restraint in the conduction of monetary policy. The report did not go as far as recommending contractionist policies either.

On exchange rate policy the study concluded that the practice of overvaluing the cruzeiro to stimulate industrialization had reached its limit. The policy had previously contributed to industrialization, but from that point on it risked transforming what should be temporary balance of payments disequilibrium into a chronic problem, since disincentives to exports were reaching an unsustainable point.\textsuperscript{78}

In the first half of the 1950s, developmentalists debated over two different planning strategies. Nationalist developmentalists, such as Celso Furtado, favored ECLA’s more global approach. ECLA’s proposition was to direct investments according to general studies of the economic structure and based on projections of tendencies of supply and demand. Meanwhile, inside CMBEU, cosmopolitan developmentalists led by Campos, proposed the idea of sectorial planning.

The rationale for the planning of sectors was explained in several conferences by Campos and was a precursor to Hirschman’s proposition on bottlenecks and forward and backward linkages. Campos wanted to transform points of strangulation into areas of growth or “germination” by choosing investments that have the possibility to “irradiate expansion” into other segments.

Liberals did not pose many objections to the idea of sectorial planning, partly because its proponents were cosmopolitan developmentalists and favored foreign capital.

\textsuperscript{77} Bielschowsky, \textit{Pensamento Econômico Brasileiro}.
\textsuperscript{78} For more on the conclusions of the CMBEU Report see Bielschowsky, \textit{Pensamento Econômico Brasileiro}, 383-84.
Additionally, liberals recognized that some specific areas needed government investments, especially transports and energy.

Sectorial planning won the intellectual dispute against global planning and dominated the political thought of the second half of the 1950s. Roberto Campos and Lucas Lopes would use their thinking about sectorial planning to formulate the Plano de Metas (Targets Program) for the Kubitschek government. Although ECLA’s propositions for global planning were never implemented in Brazil, the institution’s ideas, respectability, and the broad reach of their publications made an enormous contribution for the prestige that economic planning reached in Brazil.79

As demonstrated above, once again heated debates between liberals and developmentalists had the effect of strengthening the developmentalist ideology. In response to liberal attacks proponents of strong industrial policy improved their analysis and refined their argument. Therefore, while debates throughout those years were intense, liberalism posed little threat to the developmentalist project in Brazil.

---

79 Bielschowsky, Pensamento Econômico Brasileiro.
In many aspects, Juscelino Kubitschek (JK) was Vargas’ political heir.⁸⁰ Both favored development as a path to economic stability, national unity, and sovereignty. But JK believed development could do even more: it could bring about a peaceful transition of the Brazilian society into a stable democracy. A champion of Fordism, JK thought incorporation of labor into the system could be achieved through work in industry.⁸¹ The organization and work ethics of the factory and the compensation associated with more higher-skilled positions in manufacture would transform workers into consumers and citizens. This idea was in sharp contrast with Vargas’ top-down effort to incorporate workers through state-sponsored institutions.

Kubitschek’s development ideas were also influenced by his broad administrative experience and his travels, both throughout the country and abroad. During his presidential campaign, Kubitschek stayed true to his goal of national unity and attempted to travel to as many Brazilian cities and villages as he could. He talked to people, heard their concerns, and saw firsthand the precarious conditions of the country’s infrastructure and the lack of state presence in the interior. Additionally, JK was very mindful of several polls released in the early 1950s, which had found that the main concern among respondents was the country’s deficient infrastructure, especially roads. The polls also showed a high interest in the expansion of access to automobiles.⁸²

---

⁸⁰ Juscelino Kubitschek began his political career as a representative of Minas Gerais in the Chamber of Deputies of Brazil. Later he served as mayor of Belo Horizonte and as governor of Minas Gerais. During his governorship, Kubitschek was a member of the pro-Vargas groups his state and had been mentioned in those circles as a possible successor to Getúlio Vargas, who, in turn, had told his closest associates that he favored JK’s candidacy. Vargas’ last trip outside of Rio de Janeiro was a visit to Governor Kubitschek.


⁸² Wolfe, *Autos and Progress*, 115-16. People in urban areas were more likely to be polled.
Based on these experiences, Kubitschek knew what he wanted for the future of Brazil: to turn it into a modern, stable democracy. He elaborated on that vision during his campaign and published a document in 1955 called Diretrizes Gerais do Plano Nacional de Desenvolvimento (General Guidelines for the National Development Plan). The manuscript advocated faster economic development with the purpose of structurally transforming the country. This goal could be reached through a strong industrialization policy. For Kubitschek, industrialization was the best way to solve the problems of a country like Brazil, with a potentially large internal market and plenty of natural resources.

Therefore, Kubitschek had a deep belief in democracy and held firmly that development was its most important precondition. Kubitschek also thought that he could be the one to deliver the economic development needed to transform Brazil into a modern democracy. With his slogan “cinquenta anos em cinco,” he promised to promote fifty years’ worth of development in five years of presidency.

Kubitschek (PSD) won the 1955 elections with only 36% of the votes, which led some to question the legitimacy of his election. To make matters worse, his vice-president, João Goulart (PTB), was extremely unpopular with the armed forces. Despite some tensions during the transition process, Kubitschek was inaugurated on January 31, 1956. A shrewd politician, JK was able to secure Congressional alliance and the support of the armed forces for most of his term. As a result, his presidency was characterized by political stability and respect for democracy. This stability was essential to the relative success of JK’s development plan, Targets Program.

---

83 Bielschowsky, *Pensamento Econômico Brasileiro*; Sikkink, *Ideas and Institutions*. Roberto Campos, Lucas Lopes, and Kubitschek himself authored the Diretrizes Gerais do Plano Nacional de Desenvolvimento. The main sources for the document were the BNDE and the CMBEU Report. The latter was co-authored by Campos and Lopes, among others.
86 The elections represented a victory for the two parties that had links with Getúlio Vargas: PSD and PTB.
87 Skidmore et al., *Modern Latin America*. 
One of the first things Kubitschek did in office was to create the Conselho de Desenvolvimento Econômico (Economic Development Council) and nominate Lucas Lopes to be the general secretary. Along with the BNDE, the council formulated and oversaw the Targets Program, the largest and most ambitious planning instrument Brazil had ever seen. Kubitschek wanted a development strategy composed of quantifiable objectives, or targets, so his plan was divided into five priority areas for investment: energy, transportation, basic industry, food, and education. Most of the financial resources, however, went to the first three. The five priorities were further divided into thirty goals, or targets. Kubitschek had one additional personal goal: the construction a new national capital, Brasília.

Brasília: The Synthesis of Developmentalism

The new capital had been predominant in Kubitschek’s plan since the presidential campaign. Brazil’s major urban centers were concentrated near the coast. The idea behind the new capital was to bring the decision-making nucleus closer to the interior, to a part of the country that was more centrally located, and integrate it with the rest of the national territory through roads and communication systems. For Kubitschek, Brasília would achieve “integration through interiorization” and “transform the economic archipelago that is Brazil into an integrated continent.”

---

88 Vianna and Villela, “O Pós-Guerra (1945-1955),” 55. The government set aside 5% of the GDP for the Targets Plan between 1957 and 1961. Energy and transportation received 71.3% of that amount, almost entirely sourced from the public sector. Basic industry received approximately 22.3% of the total investments, mainly from the private sector, often through public loans. The remaining 6.4% of the allocated funds went to education and food.

89 Details on the five priority areas and the thirty targets can be found in Sikkink, Ideas and Institutions, 136-37.

90 Cosmopolitan developmentalists opposed the construction of a new capital. Roberto Campos, for example, tried to sabotage the plan several times. Still, Kubitschek treated Brasília as part of the Program and gave it top priority.

91 Quoted in Wolfe, Autos and Progress, 134.

Brasília was dear to Kubitschek’s heart because it was the synthesis of the Targets Program. JK’s developmentalist project for Brazil was that of a modern, industrialized, integrated, democratic country. Brasília was designed to be all that and to set the example for the rest of the nation. In addition, JK wanted to strengthen the state. Most people doubted the government would be able to finish the construction of the new capital, or any of the goals in the Targets Program. Brazilians were not used to having a state competent enough to implement such ambitious programs. For Kubitschek, the completion of Brasília would be a testament of the power of the state.

For all of those reasons, JK gave Brasília top priority. Preparations began in his first year in office, and actual work on the project started in 1957. On April 21, 1960, Brasília was inaugurated. The event was highly celebrated throughout the country. It was a demonstration of the efficiency of the central government. The construction of an entire city in such a short period of time using exclusively Brazilian inputs, heightened nationalism, increased confidence in the state and gave Brazilians a great sense of hope in the future. It made anything seem possible.

The national media praised the new capital. Pictures of Brasília were everywhere in the country, while the radio vividly described the city to its audience. A lucky few could even watch it live on television. The futuristic architecture of the new capital (built by acclaimed architect Oscar Niemeyer) contrasted sharply with the neoclassic inspiration of many of the government buildings in Rio de Janeiro, while the wide streets, ample availability of parking garages, and few sidewalks discouraged walking and promoted the use of cars; a sign that Brazil was on its way to become a modern, industrialized nation.\(^{93}\)

Automobiles were another symbol of Brazil’s movement towards the future and played a huge role in Kubitschek’s government. These machines were considered the key to a

\(^{93}\) Wolfe, *Autos and Progress.*
unified nation and to the progress of the country. The production of cars would require another level of expertise by Brazilian workers and industry, while broad access to automobiles would shorten the distances in the vast land.

Cars had long figured in the minds of the Brazilian people. In 1953, the news magazine *Cruzeiro* said in a story that Brazilians are divided between “those who have a car and those who want to have a car.”

Kubitschek took advantage of the significant role the automobile played in the Brazilian imagination and used it to further his developmentalist goals.

Broad access to automobiles required ample participation of an efficient state, capable of building the necessary road systems. Lucas Lopes told Kubitschek that the market alone would not solve the automobile problem, so the government would have to act decisively to stimulate and coordinate a national car industry in partnership with the private sector.

Kubitschek gave high priority to automobiles in his Targets Program. In effect, autos were the only consumer goods with their own specific target. In addition, in one way or another autos were related to the three general targets that received the most attention and funds from the government: energy, transportation, and basic industry.

The Grupo Executivo da Indústria Automobilística (Executive Group on the Automobile Industry), or GEIA, worked on a plan for the auto sector. They prescribed a mix of fiscal incentives – to urge foreign corporations to shift production to Brazil – and high tariffs on imported vehicles. The auto companies that took advantage of the incentives, moved their assembly lines to Brazil and reached a minimum of 90% domestic content by mid-1960 would receive favorable tariffs and enjoy lower taxes. The ones that did not abide

---

95 Wolfe, *Autos and Progress*. 
by the rules would be excluded from the Brazilian market because they would be unable to import into Brazil due to the new rules imposed by GEIA.96

Initially, the two dominant foreign automakers in Brazil, Ford and General Motors (GM), resisted the changes. They considered the domestic market for cars too small and shifted production to trucks and buses. But Volkswagen (VW) and Kaiser Industries (owner of the Willys-Overland do Brasil, or WOB) took advantage of their competitors’ reticence and jumped on this opportunity. Meanwhile, Henry Kaiser announced he intended to transfer production to Brazil and manufacture automobiles not only for the domestic market, but also to the United States.

The auto companies that set business in Brazil sensed the nationalist mood in the country and helped fuel the pride Brazilians were feeling in their nascent auto industry. They picked up on the discourse propagated during the Kubitschek years and advertised the idea that Brazil had entered an “era of dynamism and optimism.” For instance, General Motors’ slogan was “Tomorrow’s World Begins Today.”97

All auto industries in the country marketed themselves by stoking nationalist pride and development, but WOB did it most effectively. Henry Kaiser used every opportunity he had to associate his brand with the country’s development goals. He wanted Brazilians to think of WOB as their own, so he marketed it separately, as a Brazilian enterprise and tried to dissociate its image from the foreign Kaiser Industries.

Each factory opening was a public happening celebrated in the press. Politicians went to those events and gave commemorative speeches, highlighting the transformation autos were bringing to Brazil. When international dignitaries visited the country, they were drove around in Brazilian-made cars, and their stay usually included a tour of an auto factory. This

was a double publicity strategy to lend an air of international approval to Kubitschek’s program and to begin to market the cars to other markets in Latin America and eventually beyond.

The government eagerly pursued a policy of auto exports and offered financial support in the hope that exporting autos in place of coffee and other agricultural goods would reverse long-standing problems in the balance of payments and elevate Brazil’s international status. Those hopes were soon rewarded when Brazil began to export VWs to Mexico, DKW-Vemags to Spain, and to supply auto parts to the United States for use in Ford vehicles. This was a source of great national pride and, in the eyes of the Brazilian people, separated Brazil from the rest of Latin America.98

Developmentalist Thinking in the Golden Years

Getúlio Vargas had contributed a great deal for spreading the ideas of nationalism and of a strong, interventionist state. However, those were still relatively new concepts and not completely formed into a developmentalist ideology back then. Kubitschek worked with a finished and increasingly accepted idea, which he popularized much further.99 Kubitschek’s presidential campaign increased the support for developmentalist discourse. One of JK’s main contributions was to imbue developmentalism with symbolism and to make use of simple, easy to understand slogans, such as “Fifty years in five.”

In this way, Kubitschek interpreted developmentalism for his voters and made it an ideology of easy consumption. Once he took office, this interpretation was incorporated into the official discourse. As such, it was disseminated extensively by the administration, mainly

99 As described earlier, after decades of heated debates with liberals, but the early 1950s, developmentalism was mature and widely accepted. The creation of ECLA in 1948 contributed with a more refined conceptualization of those ideas that were now being defended abroad. ECLA helped to give legitimacy and publicize developmentalism among the Brazilian elites.
in connection with the Targets Program. That was only natural, since the Targets Program and the implementation instruments put in place by Kubitschek were the expression of developmentalism.

As described previously, many economic commissions, and study and planning groups were created inside the government bureaucracy in the course of several administrations – most notably, under Getúlio Vargas.\textsuperscript{100} Over the years, they built on each other’s work. The Targets Program was the culmination of those efforts. It synthesized their technical documents and combined different policies in a single program for the first time. According to Sikkink, this connection was part of a deliberate effort to maintain continuity in development policy in the postwar period. In effect, several documents from the Targets Program described the path that led to its conception: from the end of World War II to the creation of many study groups and institutions along the way, to the establishment of the Development Council in 1956.\textsuperscript{101}

The policies behind the implementation of the Targets Program only became possible due to a strong convergence of ideas. A brief analysis of the main political actors of the time shows the level of consolidation developmentalism achieved in the Kubitschek years. This ideology had always been predominant among industrialists and technocrats. Their proportion and political weight grew considerably over the first half of the century, due to Vargas’ efforts to modernize the state and the increased industrialization of this period. By the mid-1950s, industrialists were a sizable and prominent force while technocrats occupied the most important posts in the government machine. Both groups only grew in size and influence during the Kubitschek administration.

The labor movement was friendly to Kubitschek’s government and did not oppose his economic policies. They saw the election of João Goulart (PTB) for vice-president as a

\textsuperscript{100} Not to mention the many federations, institutes, and publications concerned with economic thinking created outside government or within other state powers such as the military.

\textsuperscript{101} See Sikkink, \textit{Ideas and Institutions}, 131.
guarantee that their interests would be safe. Also, the Brazilian Communist Party was influential with the unions and helped secure support for JK after the elections.\textsuperscript{102} The party was very pragmatic and held a nationalist developmentalist position.\textsuperscript{103} Additionally, like the majority of the labor leaders, the Communist Party felt that workers were much better off during JK’s presidency than under any other preceding government.\textsuperscript{104} Many experienced workers were promoted while rural migrants received the security of a minimum wage for the first time. Finally, autoworkers represented a new class of labor, very well incorporated into the developmentalist system. In fact, autoworkers were a symbol of what modernity could accomplish.\textsuperscript{105}

The armed forces generally favored the Targets Program. Some scholars argue that Kubitschek secured their backing by placing military officers in key government positions. However, it is also possible that these appointments were the result of shared opinions. As discussed previously, several publications associated with the armed forces defended nationalist developmentalism.\textsuperscript{106} Nonetheless, it is true that the military was not fully cohesive ideologically. For instance, the Army Superior War College (\textit{Escola Superior de Guerra}, or ESG) housed groups with many different economic opinions.

In general, the position of the ESG could be categorized as cosmopolitan developmentalist. The school favored state planning to promote industrialization, but thought private initiative, both domestic and foreign, was crucial. In spite of this, the principal dissenting group in the military was also concentrated in the ESG. The main reason some in

\textsuperscript{102} Sikkink, \textit{Ideas and Institutions}, 157. The influence of the Communist Party among the unions increased after re-democratization and the re-legitimation of the party. During the elections, Kubitschek received an inexpressive amount of votes from organized labor. But over the course of his presidency, working-class approval improved.

\textsuperscript{103} Sikkink, \textit{Ideas and Institutions}; Bielschowsky, \textit{Pensamento Econômico Brasileiro}. As part of their strategy, the Brazilian Communist Party sided with labor and national capital against large landowners and foreign capital.

\textsuperscript{104} Sikkink, \textit{Ideas and Institutions}. Some studies suggest that this perception was the result of rising wages. However, according to Sikkink it is not possible to assess whether there were any raises in the real wage levels.

\textsuperscript{105} Wolfe, \textit{Autos and Progress}.

\textsuperscript{106} Sikkink, \textit{Ideas and Institutions}. The nationalist developmentalist magazine most influential among the military was the \textit{Revista do Clube Militar} (Military Club Magazine).
the military disapproved of Kubitschek was that he was too leftist at a time of an imminent Communist threat. Still, even the most hardcore army oppositionists were nationalists and believed development was essential for national security. They also favored JK’s efforts for national integration.

In addition to a faction of the ESG, the conservative party UDN also remained in opposition to Kubitschek. Yet, once again they did not pose much challenge to the administration. Although at times the Kubitschek government may have had to rely more heavily on the PSD-PTB progressive coalition, several of the Congressional votes essential for the implementation of the Targets Program had the support of all four parties in Congress: PSD, PTB, PSP (Partido Social Progressita), and UDN.

Hence, it appears that during JK’s government UDN played to its base by vocally opposing the government while conceding the votes in the issues the executive most cared about. Such concessions did not come for free, however. Patronage was one of the tools used to garner support in important votes. For instance, the opposition received seats in the public company responsible for the construction of Brasília in return for backing the erection of the new capital.

A main source of antagonism to Kubitschek’s economic program was found in the rural sector. But even there, resistance was ambiguous. Coffee exporters were firm champions of free trade. Coffee producers themselves, on the other hand, were unenthusiastic in their acceptance of free market economic ideas. Having been rescued by the government many times—most notably with purchase of excess production in the aftermath of the 1929

---

107 Sikkink, *Ideas and Institutions*.
108 Actually, the two groups often overlapped, as many of the more conservative military officers unhappy with Kubitschek were members of the UDN.
market crash—they saw a role for the state in the economy. But the rural sector was largely left out of Kubitschek’s economic plan. Although targets 13 through 18 in the Targets Program were concerned with agriculture, in practice they were essentially ignored. Coffee was not included in the program at all.

While the government did not intervene much to benefit the countryside, it did not intrude in its land structure and political status quo either. The fact that local powers were left alone and Kubitschek never even mentioned land reform may have been enough to guarantee landowners’ acquiescence. Furthermore, by the time JK took office, the state was stronger than ever. It would get even stronger over the course of his administration. Hence, the central government had more leverage with landowners than it did in the past. For that reason, the rural elites could not influence the Targets Program or do much to block the spread of developmentalist ideas.

And spread they did. The immediate results of the Targets Program were fast economic growth, high industrialization, and expansion of basic infrastructure. For many, those were hard evidence of developmentalism’s effectiveness. Additionally, every success of the Targets Program was widely publicized. Each factory opening, or infrastructure completion, even minor ones, deserved an inauguration, an opportunity for press. Major accomplishments, such as finishing Brasília on time, led to a near frenzy.

Brasília was inaugurated on 21 April 1960. The celebrations began days before, with the Caravan of National Integration, which drew attention to three of JK’s greatest accomplishments: the automobile industry, the new road system, and the construction of Brasília. They also emphasized the idea of national unity and the importance of mobility.

---

111 Coffee growers still benefitted from the purchases program set by Vargas and a policy of minimum set prices for coffee.

112 Convoys of Brazilian-made cars simultaneously left Porto Alegre (in the South), Rio de Janeiro (Southeast), Cuiabá (Center-West), and Belém (North), and drove to Brasília (Center-West) through hundreds of miles of often brand new roads.
The caravans and the inaugural ceremonies had national and international press coverage. After so much acclaim, what had been public skepticism about the new capital became an euphoric reception. Residents from Rio de Janeiro, for instance, had been among the most upset, given that their city was about to lose its status as the nation’s capital. By early 1960, however, their opinion had completely reversed. A poll from March of that year revealed that 73% of Cariocas approved the transfer of the capital, and 85% thought Brasilia would help develop the interior. In a new poll from January 1961, 80% of Rio de Janeiro participants said the Targets Program had “successfully accelerated national progress.”

The near lack of challenges to developmentalism in those years meant that this was much more a period of consolidation of developmentalism than of original contributions to the framework. Previously, heated disputes with liberals had led the proponents of this type of policy to creative arguments and had strengthened the ideology. Additionally, the seemingly successful policies of the JK administration contributed both to channel support for developmentalism and to a sense of accomplishment on the part of its theorists, who may have felt little need to improve something that, in their view, was working. Besides, by the late 1950s, developmentalism had reached a much more mature and refined form, and there may not have been much room for additions.

That does not mean that contributions were nonexistent. There was a good deal of developmentalist materials in the late 1950s; they were just not as novel as before. Actually, much of the inspiration for the development literature of the time came from government official documents, such as studies published by the Economic Development Council. Therefore, one major source of motivation for developmentalists was, naturally, the Targets Program.

113 Wolfe, *Autos and Progress*, 137.
However, according to Lucas Lopes, Kubitschek and his team were not initially concerned with theory as they began to think about the Targets Program. The need for the targets seemed beyond discussion—a sign of the level of consensus around developmentalist ideas within important technical and political circles. With time, the men heading the Targets Program made sure to give a solid theoretical foundation to their plan. Such a framework was provided by CMBEU and BNDE documents.

The majority of the developmentalist literature called for deepening industrialization. Balance of payments and inflation were also common themes. The analysis of those topics was predominantly structuralist, but this time the unfavorable balance of payments began to figure as one of the main causes of inflation. There was increased acceptance of the notion that free remittance of profits by foreign companies caused major exchange rate problems and represented a threat to the development project. This argument would soon gain the support of socialists, who used it to advance nationalist, anti-imperialist ideas.

Many developmentalist forums emerged or increased their influence in the Kubitschek years, but three deserve comment. The president created the aforementioned Economic Development Council to formulate and implement the Targets Program alongside the BNDE. Given its mission, the council turned out to be a major developmentalist stronghold.

Another important new space for the study and defense of developmentalism was the Instituto Superior de Estudos Brasileiros (Superior Institute of Brazilian Studies), or ISEB. Economists, philosophers, historians, sociologists, and political scientists of different backgrounds formed the think-thank, including also many scientists from the Left and some Integralists (with European fascist inclinations). What they had in common was a commitment to industrialization and development. It was created in the mid-fifties (before

---

114 Sikkink, Ideas and Institutions.
115 Bielschowsky, Pensamento Econômico Brasileiro.
Kubitschek’s election) and was soon incorporated by the Café Filho administration as part of the Education Ministry.\footnote{Skidmore, Brazil.}

Finally, in the late 1930s and early 1940s, a few Brazilian diplomats studied in U.S. universities in preparation for new postwar demands in business diplomacy. Their Brazilian counterparts despised them and called them “merchants.” The most important member of this group was Roberto Campos. Although Campos would later become more concerned with inflation and exchange rate policy, in the 1950s, he was a committed cosmopolitan developmentalist.\footnote{Sikkink, Ideas and Institutions.}

Kubitschek moved Campos and several other economists from the Itamaraty group to key policy positions. This incorporation into the administration elevated their prestige inside Brazil’s Foreign Service and increased interest for economic topics among the country’s diplomats. Therefore, while the Itamaraty had long housed developmentalist-leaning economists, it was during the Kubitschek’s administration that they acquired status in the organization, adding to the number of government institutions with developmentalist inclination.

For the first half of Kubitschek’s government, cosmopolitan developmentalists had the upper hand in the administration. Cosmopolitan Roberto Campos and Lucas Lopes occupied top policymaking positions. Their policies and the large role of foreign investments in the Targets Program reflected their weight in government. However, in 1958, Lopes and Campos lost a battle with nationalist developmentalists over the need to implement a monetary stabilization policy and to negotiate IMF approval.

Unsuccessful negotiations with the IMF were followed by a ministerial modification. The president of Banco do Brasil, Sebastião Paes de Almeida, replaced Lucas Lopes as finance minister after Lopes had a heart attack. The minister of transport and public works,
Lucio Meira, replaced Roberto Campos in the BNDE. The shift resulted in increased influence of the nationalist developmentalist camp in government until the end of the Kubitschek term in early 1961.

Nationalism grew outside of the administration as well. The interruption of talks with the IMF had been encouraged at home and was received with cheer. A popular demonstration in front of the presidential palace showed support for the move. Even members from the conservative PSD welcomed the president’s decision. As a result, the break with the fund solidified the governing coalition and guaranteed congressional support for Kubitschek until the end of his term.

A Balance of the Targets Program

The president had set up study and working groups to make recommendations about how to reach the goals for each target area in his Targets Program—such as the aforementioned The Executive Group on the Automobile Industry. While some goals had been stated in a more general language, most target areas were given specific quantitative objectives. The areas with the greatest achievements were energy production, road building, the automobile manufacture, and the completion of Brasília.

The most visible successes of the Targets Plan were the construction of Brasília in record time and the introduction of a dynamic auto industry in Brazil almost from scratch, which have already been discussed extensively. Other major accomplishments were industrial growth at every level, expansion of the electric grid, and the development of a road system.

Between 1955 and 1961, industrial production went up by 80%. The production of automobiles stimulated the expansion of the durable goods sector, which, along with capital

---

goods, was at the forefront of the industrialization process of the Kubitschek years.\textsuperscript{119} Mechanical industry grew by 125%, electricity by 380%, and telecommunications by 600% from 1955 to 1961. The country advanced in other industrial areas as well. Steel met its target and expanded by 100%.\textsuperscript{120} Cement did not reach its quantitative goal, but got to the target of self-sufficiency. Aluminum arrived at its target in 1961, one year after its deadline. Cellulose production was close, but did not quite realize its target.\textsuperscript{121}

Target 1, to “increase energy capacity,” accomplished 82% of its goal.\textsuperscript{122} The construction of roads surpassed its quantitative goal, reflecting the president’s and his associates’ confidence in the automobile as the most modern and effective way to unite the country and deliver progress. Meanwhile, the railroad program accomplished less than half of its goal. The targets for food were not met.\textsuperscript{123} Progress in agriculture was concentrated in the prosperous central and South regions and regional inequality increased.\textsuperscript{124}

In 1959 Kubitschek responded to the problems of regional inequality, extreme poverty in the Northeast, and massive rural-urban migration with the creation of a new, massive, government agency. The Superintendência para o Desenvolvimento do Nordeste (Superintendency for the Development of the Northeast), or SUDENE. It was headed by Celso Furtado and was in charge of developing the Northeast.

Paying for the Targets Program

The administration did not present a plan to fund the Targets Program. The idea was to find financing “along the way.” To advance the industrialization portion of the Program,
JK’s economic team implemented a reform that introduced protective tariffs and somewhat simplified exchange rate policy. The new strategy reduced incentives for the imports of capital goods—with the consequent protection of a nascent local industrial sector for these products—but kept the government’s capacity to select products to import. Despite being distinctively developmentalist, the new policy encountered very little opposition from liberals, indicating the prevalence of that ideology at the time.\footnote{Bielschowsky, \textit{Pensamento Econômico Brasileiro}.}

Infrastructure projects and other development investments were paid mostly by the public sector. Only 35% of funds came from the private sector (foreign and domestic). Half of the reserves originated from public funds and 15% from governmental credit agencies.\footnote{Vianna and Villela, “O Pós-Guerra (1945-1955),” 57.} To finance spending, the government relied heavily on long- and medium-term loans mainly from the Export-Import Bank (Eximbank). The government also expanded its tax revenue, largely in the form of indirect taxes. Between 1955 and 1960 tax receipts as a share of GNP went from 17.4% to 22.9%.\footnote{Sikkink, \textit{Ideas and Institutions}, 153.}

However, this tax increase was not nearly enough to pay for the massive government spending. To make matters worse, in early 1958, export earnings declined sharply, at a moment when demand for imports was very high because of fast industrialization. The resulting public deficit led to uncontrollable inflation. In effect, inflation became the main financing mechanism of the Targets Plan. The printing machines worked overtime during the Kubitschek government as he made ample use of monetary expansion to fund spending and increase credit for private investments. The rate of inflation went from 7% in 1957 to 24.4% in 1958.\footnote{Vianna and Villela, “O Pós-Guerra (1945-1955),” 58.}

At the beginning of 1958, the government tried to get a new loan from the Eximbank. But the bank conditioned the loan to a positive IMF evaluation. The IMF, on the other hand,
would not provide a favorable report unless Brazil controlled inflation and reduced the deficit in the balance of payments. In June 1958, Lucas Lopes left the BNDE to take over the Finance Ministry, and Roberto Campos became president of the BNDE. In October 1958, Lopes and Campos released a monetary stabilization plan (PEM).

In an attempt to guarantee at least a minimum support for the PEM in Congress, Lopes and Campos opted for a gradual monetary stabilization, as opposed to the shock therapy favored by the IMF. But even the gradual policy was opposed by Banco do Brasil, which refused to cut credit. Despite continued opposition at home, Kubitschek initiated negotiations with the IMF. Yet, the fund demanded austerity measures that, if put in place, would prevent Brazil from reaching the goals in the Targets Program and possibly halt the construction of Brasília.

Kubitschek’s priority was the Targets Plan. In addition, nationalism was growing in Brazil, and there was broad support at home to interrupt negotiations. Thus, Kubitschek broke with the IMF in June 1959. He chose to continue his development project and leave the macroeconomic problem for his successor. In 1961, inflation would reach 47.7%.129

Despite extremely high inflation, Kubitschek’s Targets Program had great popular approval. The economy grew at 5% per capita annually; industrialization had slowed by 1960, but still grew 8% that year.130 The Targets Program reached its principal goals. Cars were a growing presence in the lives of the middle class, and so were domestic durable goods. Roads and electric energy had become accessible to a larger number of people, and the country had a brand new, modern capital, erected by Brazilians with Brazilian money. Respect for civil liberties was unprecedented. The Kubitschek period came to be known as “the golden years.” But Kubitschek’s greatest legacy to the country was a vast sense of confidence in the state and optimism about the future.

The campaign for the presidential succession began in 1959. Kubitschek’s War Minister General Henrique Lott was running under the banner of the PSD. On the other side, the governor of São Paulo, Jânio Quadros, represented the small Partido Trabalhista Nacional (National Worker Party), or PTN, with the support of the UDN. Quadros was a conservative populist whose campaign symbol was a broom, denoting his promise to clean the government from corruption. General Lott, in contrast, was an inept campaigner and his association with the popular Kubitschek was not enough against his ingenious opponent.

Additionally, Quadros had the support of the labor movement. As mentioned before, the autoworkers were well integrated in the developmentalist system and coalition, but other economic segments continued to organize in unions. The unions supported Kubitschek while they felt worker living conditions were improving. But when inflation rates rose and the associated cost of living became excruciatingly high, their adherence to Kubitschek weakened quite a bit. 1959 was marked by an unprecedented number of strikes. But their allegiance to Goulart was longstanding and remained intact. Jânio Quadros won for president, and João Goulart (PTB), who was running on General Lott’s ticket, obtained the vice-presidency, on account of an electoral rule that allowed voters to select the president and vice-president separately.

Quadros took office on 31 January 1961 and assembled a cabinet that included a number of conservative UDN members. Quadros and his team quickly proposed an orthodox plan to deal with the macroeconomic problems of the country. The strategy included cuts in public spending, reduction in subsidies to imports of oil and wheat, a contractionist monetary
policy, sharp devaluation of the cruzeiro, and the unification of the exchange rates. The plan was welcomed by the IMF, which restructured some of the country’s debt. Quadros was also able to obtain new loans abroad.131

However, the opposition (PTB and PSD) controlled Congress and resisted his economic program. Quadros reacted by renouncing the presidency on 25 August 1961, only seven months after taking office. He probably thought Congress would reject his resignation, but he was wrong.

João Goulart

By law, Vice President João Goulart was the successor to Jânio Quadros. However, military ministers issued a manifesto pledging to prevent him from taking office. The UDN and the military saw Goulart as a dangerous populist with strong ties to the Communists. It did not help that on the occasion of Quadros’ resignation, João Goulart was on an official trip to the People’s Republic of China.

After intense negotiations between Congress and the military, Goulart was allowed to take office, except not as president, but with limited powers under a parliamentary system. The prime minister would be Tancredo Neves. A plebiscite was scheduled for January 1963 to decide whether Brazil would continue in the parliamentary system until the next presidential elections or if João Goulart would be allowed to assume the position of president for the remainder of his term.

The foreign loans Jânio Quadros had retained in 1961 were canceled as a result of the political uncertainty of his resignation and its aftermath. In 1962, a law limiting profit remittances to 10% of the registered capital caused a 40% reduction on the liquid inflow of

131 Skidmore, Brazil.
foreign investments. By the beginning of 1963, economic growth had slowed down (from a GDP of 8.6% in 1961 to 6.6% in 1962), and the inflation rate rose fast.¹³²

For that reason, ministers Tiago Dantas (finance) and Celso Furtado (economic development) devised an economic strategy for the next three years: The Plano Trienal de Desenvolvimento Econômico e Social (Triennial Economic and Social Development Plan). The plan’s objectives were to increase the growth rate to 7%, reduce inflation to 25%, maintain salary increases compatible with productivity rates, implement an agrarian reform, and renegotiate the country’s foreign debt (to reduce the pressure in the balance of payments).¹³³

Furtado’s strategy to reduce inflation was not very different from orthodox measures. It included expenditure cuts and credit control, among other actions. His development strategy, however, was (expectedly) inspired by ECLA’s prescriptions. Furtado believed that the economic decline was caused by a crisis of the development model itself, but instead of suggesting a move away from the model, his proposed solution was to deepen ISI. Furtado argued this would be possible with the expansion of the domestic market via agrarian reform and other forms of income distribution.¹³⁴

At the referendum of January 1963, the people voted for the return of the presidential system.¹³⁵ The result intensified anxiety among military officers and the right. Dantas and Furtado remained in the Finance and Economic Development Ministries respectively. In March, Dantas went to Washington to negotiate new agreements with the U.S. and the IMF. His trip to the United States was not nearly as successful as he had hoped.

Dantas did not get much in loans and most of what he did get was contingent on the implementation of a comprehensive anti-inflation program back home. Likewise, he was not

¹³⁵ Although short, the parliamentary experience included three different prime ministers: Tancredo Neves, Brochado da Rocha, and Hermes Lima.
able to successfully renegotiate deadlines on existing debt. The international lack of collaboration was a consequence of Brazil’s political deterioration and turn to the Left since Quadros’ resignation. Upon his return, the left accused Dantas of “selling out” to the U.S. and the IMF. Over the next few days, the attacks grew more virulent, and references of Kubitschek’s break with the IMF began to rise. But this time Brazil’s foreign reserves were even lower, and inflation was already too high.\textsuperscript{136}

Facing criticism over Brazil’s mission to Washington and the contractionist measures proposed by Dantas and Furtado, João Goulart gave up on the orthodox measures of the \textit{Plano Trienal}. In April, Goulart resumed subsidies to wheat and oil (that had been abandoned in January), gave a 60\% raise to federal workers, and increased the minimum wage by 56\%. Inflation had stabilized since the implementation of the \textit{Plano Trienal}, but shot back up in May and remained high for the rest of the year.\textsuperscript{137} It would reach over 100\% by March 1964.\textsuperscript{138} Throughout 1963 the economy deteriorated.

The political situation deteriorated just as fast. There was an unprecedented increase in popular mobilization. Labor movements were more organized and social movements had gained significant adherence including in the countryside. Demonstrations and strikes multiplied throughout the country; the Left performed land invasions and expropriation of foreign companies.

In Congress, leftist groups were small in numbers, but loud and committed, and were gaining supporters. They advocated for basic reforms, known as \textit{reformas de base},\textsuperscript{139} especially agrarian reform, which they saw as instrumental for a better income distribution. The Left alternated between support for Goulart and sharp criticism of his irresolution regarding the \textit{reformas de base}.

\textsuperscript{136} Skidmore, \textit{Brazil}.
\textsuperscript{138} Skidmore, \textit{Brazil}, 150.
\textsuperscript{139} The \textit{reformas de base} were to include land, higher education, and foreign capital.
In 1963, in addition to unprecedented monetary and exchange rate crises, Brazil faced economic recession. Worsening economic conditions further diminished Goulart’s capability to deal with the political crisis. Congress became increasingly polarized. The right, especially in the UDN, called for military intervention. Armed with an anticommunist ideology, this group claimed that an overthrow was necessary to avoid a leftist coup by Goulart. For his part, the leftist-populist Goulart called for anti-elitist measures such as letting illiterates vote and allowing enlisted men in the armed forces to organize in unions. This was a major defiance of the military command that was already facing increased politicization of its ranks, and a large penetration of leftist ideologies.\(^{140}\)

The Crisis of Developmentalism

As political debates and unrest intensified, people tended to take a position, and the political center shrank. In this context, the developmentalist coalition of the Kubitschek years eroded. Many stayed in the Goulart camp and continued to collaborate with the president. One example was nationalist developmentalist Celso Furtado, who, as mentioned, was Goulart’s planning minister and later went back to the head of SUDENE.

In general, cosmopolitan developmentalists opposed Goulart, but the most notable member of this camp, Roberto Campos, was part of the administration, at least in a first moment. He served as ambassador to Washington, where he helped finance minister Dantas negotiate the aid package in 1963. As Goulart became increasingly radical in his nationalist stance, however, Campos moved to the opposition. He even became closely associated with

In the context of political and economic instability of the early 1960s, the developmentalist thought went through a crisis of its own. By then, developmentalism had been part of the economic thought for many years, even decades. This meant that on the one hand, it had become widely accepted even among conservative economists; on the other hand, however, it did not have the same “vanguard appeal” as it did in the past. Even the Kubitschek years had already been much more of consolidation of developmentalism than of formulation of new ideas. Now, with developmentalism present in the national thought for so many years, it was being taken for granted.

Moreover, the dire economic problems of the early 1960s took economists’ attention away from theoretical formulations. Debates were hotter than ever, but the arguments used by the different sides were mainly the same that they had been defending for years, especially on the issue of the balance of payments. Nationalists insisted that full liberty in the remittance of profits was one of the main causes of external imbalances. Those who believed the country needed foreign investments contested this claim.

One original formulation about inflation appeared in the work of Ignácio Rangel. Alberto Passos Guimarães picked up on that work and added a few elements. For Guimarães, Brazil’s productive structure is too concentrated. This leads to the formation of “oligopolistic profits” that lead to inflationary pressure. Guimarães’ proposed solution is the creation of a “state capitalism” in Brazil.

Discussions about the pattern and dynamism of Brazil’s economic development were much in line with Rangel’s and Guimarães’ arguments. They were also influenced by

---

142 Bielschowsky, *Pensamento Econômico Brasileiro*.
ECLA.\textsuperscript{144} In the early 1950s, ECLA began to identify several structural problems in Latin American nations that had to be solved to make industrial development possible. At the time, the analyses were still very optimistic. A decade later, the mood had been reversed and ECLA’s texts became very gloomy.\textsuperscript{145}

In the 1960s, ECLA studies had concluded that due to a development pattern that leads to income concentration, Latin America’s economies tend to stagnate. The organization’s economists were concerned that good economic planning may not be enough to solve structural problems and deal with social imbalances. A common assumption was that it was necessary to reorient the pattern of economic development and promote income redistribution. This formulation was new in the first half of the 1960s, but it would gain a lot of traction later on.

ECLA economists offered two different explanations for the stagnation of Latin American economies in the 1960s. One focused on low availability of capital, a result of the development process itself. The other line of reasoning claimed that an insufficient domestic market was to blame for Latin America’s economic stagnation. According to this reasoning, unequal income distribution hinders market expansion for the industrial sector and inhibits the diversification of its activities or, in some cases, leads to low industrial productivity. The latter rationale became dominant in Brazil.\textsuperscript{146} It was present, for example, in the work of Maria da Conceição Tavares. The author and many of her peers believed ISI had reached its final phase and it was time to find a new development model for Brazil.\textsuperscript{147}

\begin{flushright}
\textsuperscript{144} Bielschowsky, \textit{Pensamento Econômico Brasileiro}.
\textsuperscript{145} Albert O. Hirschman, “The Political Economy of Import-Substituting Industrialization in Latin America,” \textit{The Quarterly Journal of Economics} 82 (1968). Hirschman talks about this pessimism and gives reasons for hope in ISI. The author says a regional propensity to pessimism, or what he calls \textit{fracasomania} was partly to blame for the negative evaluations of ISI. He acknowledges a few shortcomings of the system but says that, although not perfect, it can be improved. Hence, there is no need for such gloom. He then moves to an elaboration of the characteristics of ISI, its advantages, its shortcomings, and ways that it can be perfected.
\textsuperscript{146} Bielschowsky, \textit{Pensamento Econômico Brasileiro}.
\textsuperscript{147} Maria da Conceição Tavares, \textit{Da Substituição de Importações ao Capitalismo Financeiro} (Rio de Janeiro: Zahar Editores, 1972). In spite of her diagnosis, Tavares continued to see the state as indispensable in the elaboration of a new model.
\end{flushright}
In the 1960s, economists who identified with socialism did not attempt to analyze the economic crisis. They were more concerned with claims of land monopoly and imperialism, which they believed were the greatest barriers to the development of rural and urban workers. Notwithstanding different language and theoretical instruments, there were many parallels between the socialist reasoning and ECLA’s analysis.

Both were concerned with medium and long-term tendencies that they claimed were getting in the way of economic growth. ECLA believed such tendencies were inflation, unemployment, income concentration, and “external obstructions.” These trends were the result of internal and external structural factors. The solution proposed by ECLA was institutional reform and economic planning carried out by the state to redirect development.

Meanwhile, socialists claimed that a “domestic contradiction” (land structure) and an “external contradiction” (imperialism) hindered the development of rural and urban productive forces. They called for reformas de base (fundamental reforms) and a transition to a state capitalism. This would entail a strong state to put heavy planning in place, execute large governmental investments, and impose national over foreign interests.148

The idea that Brazil’s development was not possible within the current capitalist system was later reinforced by dependency theory. According to this formulation, underdevelopment in “periphery,” or “satellite” countries is the result of capitalist development itself, in a process that provides capital accumulation to the “core,” “central,” or “metropoly” nations to the detriment of the poor sectors within the periphery. The process is only possible because of an alliance between international and domestic economic elites.149

148 Bielschowsky, Pensamento Econômico Brasileiro, 426.
Therefore, the predominant idea among the different leftist groups in Brazil in the early 1960s was a nationalist project of capitalist development, in line with state capitalism. Nationalism was used as an instrument of political mobilization, often able to bring together different political ideologies around a common nationalist goal. The effects of the presence of multinational corporations in the Brazilian economy were widely discussed, and many pointed to a need of increased participation of state enterprises in the national economy.\footnote{Bielschowsky, \textit{Pensamento Econômico Brasileiro}.}

Social change figured among the main areas of economic deliberation in Brazil for the first time. As mentioned above, in the 1960s, the process of development was being reformulated all over Latin America; its shortcomings, and the possible need to change the development strategy. There was a general belief that the continuation of Brazil’s development required deep, fundamental institutional transformations, or \textit{reformas de base}, which would constitute the foundation for the next phase of social and economic development. The most important \textit{reforma de base} would be agrarian reform. Industrialization had not delivered the kind of social change that many had expected. Land redistribution would expand internal market for the national industry, lead to higher productivity, and to more availability of food, and bring social justice.\footnote{Celso Furtado, \textit{Obstacles to Development in Latin America} (Garden City, NY: Anchor Books, 1970).}

In sum, developmentalism was still very present in the 1960s, but was moving away from its original form due to distractions caused by immediate problems and the social concerns that were not present before. It had become clear to most involved with the ideology that industrialization would not solve poverty and unemployment on its own. As a result, many began to advocate for reforms in income distribution and in the division of land in the countryside. Discussions about the best model of development for Brazil continued after the military coup of 1964, but became more difficult after 1968.
THE MILITARY REGIME: 1964 – 1985

The Coup

By early 1964, both right and left had become radicalized. Knowing many of his proposals would not pass in Congress, João Goulart arranged a number of national rallies where he would announce key presidential decrees. The first rally took place on March 13 in Rio de Janeiro. Goulart announced land reform and the nationalization of all oil refineries. The right reacted with a number of marches, such as the Marcha pela Família com Deus pela Liberdade (March of Families with God for Freedom), which attracted hundreds of people, mostly middle class, to the famous square Praça da Sé in São Paulo. The escalation of tensions culminated with a military coup.

Military units seized key government offices on the night of March 31. They expected resistance, but found none. Most Brazilians simply woke up on April 1 to the news of a military takeover. Regardless of the lack of resistance, the government launched Operação Limpeza (Operation Cleanup), to rid the country of “subversives.” The operation concentrated mostly on left-wing groups.

152 Skidmore, Brazil. According to Skidmore, the US secretly assisted in the organization of some of these marches.
153 Skidmore, The Politics of Military Rule in Brazil; Giambiagi et al., Economia Brasileira Contemporânea (1945-2004). The entire section about the military regime relies heavily on the classic work of Skidmore (1988), which provides essential political analysis. It also helps with the chronological order of events that at times gets muddled in works that focus exclusively on economics or politics. As in the previous section, Giambiagi et al. (2005) were the most reliable sources of economic data and policies.
154 Skidmore, The Politics of Military Rule in Brazil. The U.S. was fast to recognize the new government, although the State Department became uneasy with the repression that followed. See Skidmore for a detailed account of the coup and the U.S. reaction.
155 Victoria Langland, Speaking of Flowers: Student Movement and the Making and Remembering of 1968 in Military Brazil (Durham: Duke University Press, 2013), 92; Skidmore, Brazil. Langland reports that, in the first months, 50,000 people were arrested, some 2,000 public employees lost their jobs, nearly 400 people had their political rights suspended, and another 2,000 became the subjects of Inquéritos Policiais Militares, or IPMs (Military Police Inquiries). In the Northeast, members of peasant leagues were jailed, tortured, and at times killed. Soon torture spread to the rest of the country. According to Skidmore, the government also created several intelligence agencies, including the Serviço Nacional de Informações (National Information Service) that reported directly to the president. During the first military administration the press maintained most of its freedom.
The coup instituted a bureaucratic authoritarian regime based on a civil-military coalition in which military generals alternate in the presidency but occupy only key cabinet positions.\textsuperscript{156} The heavy participation of civilians had two main reasons. First, the officers valued formal rationality and preferred to fill the state bureaucracy with technicians, who carefully designed the policies. Second, civilian participation helped legitimize the regime. Less technical and more political positions were given mostly to members of the UDN, the party that supported the coup.\textsuperscript{157}

The first president of the new regime was General Humberto Castelo Branco (1964-66). His vice president was former Kubitschek’s economy minister, José Maria Alkmin (PSD). The UDN received both the Senate and the Chamber of Deputies presidencies.\textsuperscript{158} The party also occupied several prominent positions in the president’s cabinet. Castelo Branco chose Roberto Campos for Minister of Planning and Economic Coordination. Campos brought a number of economists and engineers with him, many from IPES.\textsuperscript{159}

President Castelo Branco had been the leader of the conspiracy. Contradictorily, he had a legalist background. He intended for the military rule to be brief and tried hard to maintain democratic elements in place. Nonetheless, on April 9, 1964, Castelo Branco issued the Ato Institucional (Institutional Act), or AI that turned out to be the first of many. The Institutional Act gave the executive extraordinary powers such as ability to amend the Constitution, exclusiveness in expenditure bills, and the authority to remove any individual’s political rights.

In 1965, Castelo Branco allowed for state elections to proceed as scheduled. Candidates aligned with the federal government won every state but Guanabara and Minas

\textsuperscript{156} Cardoso, “On the Characterization of Authoritarian Regimes in Latin America.”
\textsuperscript{157} Cardoso, “On the Characterization of Authoritarian Regimes in Latin America;” Skidmore, Brazil.
\textsuperscript{158} Daniel Krieger headed the Senate and Bilac Pinto was president of the Chamber of Deputies.
\textsuperscript{159} Skidmore, \textit{The Politics of Military Rule in Brazil}; Sikkink, Ideas and Institutions. Several other Kubitschek policy makers retained their posts in the government bureaucracy but did not support the military coup. Still others resigned and went to the private sector. Kubitschek had his political rights removed for ten years and was forced into exile. When the ban on his political rights ended ten years later, he was killed in a car accident.
The electoral loss in two key states led to Institutional Act 2 (AI2), which extinguished all parties and replaced them with only two. Aliança Renovadora Nacional (National Renewal Alliance), or ARENA, represented the government and was composed mostly of UDN members. The Movimento Democrático Brasileiro (Brazilian Democratic Movement), or MDB represented the opposition.

Castelo Branco and The Phase of Relative Economic Austerity

Castelo Branco took on the task of “cleaning the house” politically and economically. Sadly, politically the military thought this meant persecution, repression, and even the assassination and disappearance of potential opposition. Economically, the administration set to fight inflation, adjust the balance of payments, and put the country back in the path of growth.

Early in the administration Roberto Campos prepared a diagnostic document titled “A Crise Brasileira e Diretrizes de Recuperação Econômica” (The Brazilian Crisis and Guidelines for the Economic Recovery). Among the findings, Campos pointed to government deficits and persistent wage pressure as the main causes of high inflation. Subsequently, Campos and the orthodox Finance Minister Octávio G. de Bulhões prepared the Plano de Ação Econômica do Governo (Government’s Economic Action Plan), or PAEG).

They opted for a gradual approach to inflation control combined with fiscal austerity and a few structural reforms. The gradualism had political motivations. The military took over to combat communism, but also promised to save the country from stagflation and

---

160 After the national capital was moved to Brasília, the city of Rio de Janeiro was also the state of Guanabara for a few years.
restore growth. An economic recession at that moment could undermine the thin legitimacy of the regime, especially at this initial phase of consolidation.\(^\text{162}\)

Among the actions taken to tame inflation were wage control and restriction to credit. Austerity measures focused on state owned companies, which had been identified in Campos’ diagnosis as principal sources of public sector deficit.\(^\text{163}\) The administration then carried out efforts to improve the productivity of these companies and implemented policies that enhanced their capacity to self-finance and allowed more flexibility and independency in decision-making. This heightened level of autonomy proved key to later expansions in the number and scope of public enterprises.\(^\text{164}\)

Structural reforms involved a reorganization of the tax code and the restructuring of the financial system. The tax reform tried to increase revenue and reduce operational costs. It was successful in those terms and tax returns went from 16% of the GDP in 1963 to 21% in 1967.\(^\text{165}\) An important characteristic of the new code was that it centralized tax control in the federal government.\(^\text{166}\)

One of the main objectives of the financial system reform was to improve sources of private, long-term financing options. The main sources of credit in Brazil in 1964 were the BNDE and the Banco do Brasil. The deficiency of private sources of credit had become apparent during the implementation of the Targets Program in the Kubitschek administration.\(^\text{167}\) Another vital change was the reorganization of the monetary market.

\(^{162}\) Cardoso, “On the Characterization of Authoritarian Regimes in Latin America;” Skidmore, Brazil; Trebat, Brazil’s State-Owned Enterprises.

\(^{163}\) Trebat, Brazil’s State-Owned Enterprises. Petrobrás and some public utility companies had to keep prices below market during the Goulart administration.

\(^{164}\) Eul-Soo Pang, The International Political Economy of Transformation in Argentina, Brazil, and Chile since 1960 (New York: Palgrave Macmillan, 2002); Trebat, Brazil’s State-Owned Enterprises.


\(^{166}\) The reform limited the taxation rights of states and municipalities.

\(^{167}\) Hermann, “Reformas, Endividamento Externo e o “Milagre” Econômico, ” 76. The lack of private long-term financing options exacerbated inflationary pressures in the time of large currency emissions of the Kubitschek
through the establishment of a central bank (Banco Central do Brasil, or BACEN), to execute monetary policy, and a council with normative and regulating powers named Conselho Monetário Nacional (CMN).

Additionally, the administration made changes in the legislation to allow domestic private companies to access foreign credit directly and to make profit repatriation easier for multinational corporations. Another important instrument introduced early in the Castelo Branco administration was the policy of automatic adjustment for inflation (indexation) for government bonds.\textsuperscript{168}

The financial reforms were very successful and the deficit was cut. Improvements in the finance system guaranteed non-monetary financing of current and future government obligations. Also, the foreign debt was renegotiated. Yet, PAEG was somewhat of a disappointment for those involved in its implementation and for the Brazilian public of that time.

The economy recovered but grew at modest 2.9% for the 1964-65 biennial, or 4.2% annually between 1964 and 1967. The deficit in the balance of payments was reduced but persisted. The biggest disappointment was the inflation. It was 39% in 1966, well above the 10% target for that year.\textsuperscript{169} In 1967 it would fall sharply to 27%, but still more than double the mark.\textsuperscript{170} Even so, PAEG was successful enough to create some of the conditions for the “miracle” that ensued.

\textsuperscript{168} Hermann, “Reformas, Endividamento Externo e o “Milagre” Econômico;” Skidmore, Brazil. Both Hermann and Skidmore have comprehensible explanations of how this system worked.

\textsuperscript{169} Hermann, “Reformas, Endividamento Externo e o “Milagre” Econômico,” 78-89.

\textsuperscript{170} Skidmore, Brazil, 169.
On 15 March 1967, Castelo Branco stepped down and the hardliner General Costa e Silva took over (1967-69). Not a single minister from the previous administration remained in office. Roberto Campos gave way to Helio Beltrão in the Planning Ministry. In the Finance Ministry, Bulhões was replaced by Delfim Netto, a young professor of economics at the University of São Paulo (USP). He brought former students and economists from IPEA (a government research institute) to compose his team. João Paulo Reis Velloso, was planning minister.

The Costa e Silva administration intensified government intervention in the economy by a great deal. With a focus on economic growth, the administration adopted an expansive monetary policy and eased credit. To avoid that the policy result in inflation, the government mandated that any price increase had to be pre-approved. The administration created an agency only for the purpose of price management: the Comissão Nacional de Estabilização de Preços (National Commission for the Stabilization of Prices), or CONEP. Under the new policy the commission dictated tariffs, exchange rates, and interest on public credit, while the central bank (BACEN) determined the interest rates charged by commercial banks. Later, the Finance Ministry introduced a system of small, frequent monetary devaluations, called crawling peg, which avoided harsh changes in real exchange rate. The crawling peg reduced uncertainty and favored the entry of foreign credit in the country.

171 Alfred Stepan, *The Military in Politics: Changing Patterns in Brazil* (Princeton: Princeton University Press, 1971); Skidmore, *The Politics of Military Rule in Brazil*. From the days of the planning of the 1964 Revolution, the armed forces were divided between hardliners and moderates. The latter believed the military government should be short, with limited infringements on citizenship (although terrible violations still occurred during Castelo Branco’s “moderate” administration. Hardliners wanted a more profound transformation of the political system, even if that meant spending years in power and performing severe encroachments on civil liberties.

172 Before taking over the Planning Ministry Velloso was a member of a research arm of the ministry itself.

173 CONEP was later substituted by Conselho Interministerial de Preços, (Interministerial Price Council).

174 For an explanation on the crawling peg see Skidmore, *Brazil*. 
In mid-1968 the economic team announced the Plano Estratégico de Desenvolvimento (Strategic Development Plan), or PED. This program was clearly developmentalist. PED’s top priorities were economic growth, strengthening of the infrastructure, and expansion of the domestic market to generate demand for durable consumer goods. Gradual inflation control remained a priority but was no longer the main concern. As a matter of fact, the PED had no specific inflation targets, which gave a lot of flexibility to the economic team.

Moreover, beginning in 1968 the administration intensified efforts to advance technological expertise and education necessary to move into the next phase of ISI. This objective was stated explicitly in the PED. Brazil’s industrialization was in the process of moving into capital goods and policymakers believed a policy that promoted science and technology would be essential for the country’s future industrial competitiveness. In an effort to boost local tech companies, and promote local technical training, in 1969 a decree established that the government would only hire the technical services of those companies that met a minimum of 51% national ownership and technical staff.

On the political side, the year of 1968 was marked by numerous social mobilizations, especially by students and workers. President Costa e Silva reacted with the Ato Institucional 5 (Institutional Act-5, or AI-5, on December 13. The years that followed the AI-5 are known as anos de chumbo (years of lead) to characterize the repression that ensued.

---

175 Adler, *The Power of Ideology*, 180. For instance, in 1967 the Costa e Silva administration implemented Operation Return, which was an effort to attract Brazilian scientists working abroad. In 1968, a reform of the university system included attempts to increase the number of graduate programs. Efforts were maintained in the successive governments and the number of enrolled graduate students nearly doubled between 1975 and 1981 and the number of courses increased 60%. Over 40% of the masters degrees were in engineering, while the majority of the doctorates were in physics, social sciences, and the humanities.


177 Skidmore, *The Politics of Military Rule in Brazil*. AI-5 gave the president the right to intervene freely in the governance of states and municipalities and to declare a state of siege for any period of time. It also ended habeas corpus rights for a wide variety of crimes. Censorship was introduced. Supplementary Act No. 38 closed Congress. In September 1969, another law (Lei de Segurança Nacional) drastically increased the possibility of repression and introduced the death penalty.
In October 1969 General Emílio Garrastazú Médici assumed the presidency (1969-73). He changed most of his cabinet but preserved Delfim Netto in the Finance Ministry. Since 1968 Netto’s economic policies had begun to bear fruit and continued to do so in the Médici administration. The entire period became known as the “economic miracle” and is described below in more detail.

The continuation of Delfim Netto meant that the economic orientation remained the same. One policy that deserves mention is that the automatic adjustments for inflation (indexation)—created to apply to government bonds—became universal in the early 1970s. Additionally, the Médici administration began to put in practice the PED’s science and technology objectives. Starting in 1969 his team created a set of policies and institutions that were meant to be the framework for future advancements in this area. The new semi-autonomous institutions were responsible for promoting Brazil’s scientific and technological autonomy.178

On the political side, the Médici government was marked by increased authoritarianism. As repression grew, so did armed opposition to the government. Over a dozen guerrilla movements emerged in Brazil. Most were pre-1964 leftists turned clandestine after the coup. They were either Marxists, or radical nationalists, or both. Many were Catholics with liberation theology inclination.

Important urban guerrillas included the Vanguarda Armada Revolucionária—Parlmares, or VAR (Armed Revolutionary Vanguard), Ação Libertadora Nacional, or ALN (National Liberation Action), Comandos de Libertação Nacional, or COLINA (National Liberating Commands), and Dissidência Comunista Guanabara, or MR-8, (Guanabara Communist Dissidence).179 The majority of the guerrilla movements acted in the city, but one

178 Adler, The Power of Ideology. Adler calls this period the “creative stage” in Brazil’s efforts to become autonomous in science and technology.
179 Ricardo Batista Amaral, A Vida Quer é Coragem: A Trajetória de Dilma Rousseff, a Primeira Presidenta do Brasil (Rio de Janeiro: GMT Editores Ltda., 2011). MR-8 was responsible for the kidnapping of North
group was able to assemble a rural front in the Araguaia region in the Amazon, where they gained the sympathy of local peasants. They became known as the Guerrilha do Araguaia (Araguaian Guerrilla).  

The Economic Miracle

The policies initiated by Delfim Netto under the PED bore fruit in 1968 and the country entered a phase of vigorous economic growth that lasted until 1973 and became known as the “economic miracle.” During those years GDP rates averaged 11%. 181 This impressive growth was possible because of PED’s expansionary monetary policy. 182 But it was not just the economic growth that gave this period its nickname. It was the combination of high GDP rates with falling inflation and the transformation of a deficit in the balance of payments into a surplus. 183

When it comes to inflation, the “miracle” was in part the result of four factors that acted directly over the costs of production: (1) the economy had considerable idle capacity from the previous low growth period; (2) the government kept direct control over industrial

---

180 Skidmore, Brazil. A force of poorly trained army troops tried to eradicate the group but was easily overwhelmed. They followed up with an elite corps of thousands of counterinsurgency troops. Two years and many assaults later they managed to capture the sixty-nine Araguaia guerrillas.
181 Hermann, “Reformas, Endividamento Externo e o “Milagre” Econômico,” 82.
182 Hermann, “Reformas, Endividamento Externo e o “Milagre” Econômico,” 86. The mean in real credit growth for those six years was 17%. Increase in credit to the private sector averaged 25%.
183 The combination of growth with falling inflation and improved balance of payments defies widely accepted macroeconomic models. For an uncomplicated explanation of these relationships see Hermann, “Reformas, Endividamento Externo e o “Milagre” Econômico,” 83.
prices and interest rates; (3) wage policy led to a decline of real wages; and (4) an agrarian policy directed at expanding production helped avoid inflationary pressure from agricultural products.

When it comes to the balance of payments, the positive results were achieved in spite of an upsurge in imports. The increase happened due to a moderate increase in the value of the cruzeiro in the early 1970s and to the continuation of the industrialization process into the sector of consumer durable goods, which depended on the imports of capital goods and other supplies such as oil. Yet, exports had a good performance and Brazil maintained favorable terms of trade. This was partly a consequence of improved commodity prices. Additionally, the export of manufactured goods increased 639% between 1968 and 1973.\footnote{Hermann, “Reformas, Endividamento Externo e o “Milagre” Econômico,” 87.}

However, expenditures with interest rates, remittances, and shipment contributed to a deficit in the current account of 2.1 billion dollars in 1973, up from 276 million dollars in 1967.\footnote{Ibid, 88.} Therefore, the “miracle” was only possible because of a large availability of credit at low interest rates in the international market that allowed Brazil to take substantial loans abroad. Additionally, the country saw a sharp increase in FDI after the adoption of the crawling peg. The entry of massive amounts of foreign currency was in great part responsible both for the impressive economic performance and for Brazil’s ability to avoid a decline in the balance of payments in this period of intense growth.

Geisel, the Oil Crisis and the Escalation of External Debt

In 1974 the military regime went through another presidential succession and General Ernesto Geisel (1974-78) assumed office. Geisel renewed most of the cabinet. He gave Delfim Netto the prestigious position of ambassador to France and replaced him in the
Finance Ministry with another professor, Mario Henrique Simonsen. João Paulo Reis Velloso was maintained in the Planning Ministry and became the main link between the Médici and the Geisel administrations.

The most important item on Geisel’s agenda was to gradually move the country back to democracy. This objective was the basis for his other priorities: (1) to reduce the power of hardliners and slowly return the armed forces to an essentially professional role. (2) Control the “subversives.” In his point of view, this was a requirement to get the country ready for democracy. It was also one of the actions necessary to reduce the influence of the hardliners, who could maintain power for as long as there was still a “subversive threat.” (3) To maintain the high economic growth needed to preserve the regime’s legitimacy. High level of legitimacy would help the armed forces have the upper hand in the re-democratization process.¹⁸⁶

When General Geisel became president, in March 1974, the inflation rate was the lowest in a decade (15% in 1973), and the balance of payments was stable.¹⁸⁷ However, the growth in the production of durable goods had made the economy much more dependent on imported oil and foreign capital.¹⁸⁸

In December 1973 the Organization of the Petroleum Exporting Countries (OPEC) had drastically raised the price of oil. The costs reduced Brazil’s import capacity and threatened growth. Additionally, industrialized economies were also hit hard by the oil shock and demand for Brazil’s exports dwindled as a result. Brazil’s trade balance, which had been stabilized through efforts of the previous three administrations, moved into a deficit of 4.7

¹⁸⁶ Samuel P. Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman: University of Oklahoma Press, 1991). According to Huntington the military in Brazil was successful in maintaining the organization’s leverage throughout the re-democratization process. For that reason, the Brazilian armed forces carried out what Huntington calls a “transformation.” This kind of transition happens when the elites in power are stronger than the opposition and for that reason are able to take the lead in bringing about democracy, and that way maintain some privileges, like the amnesty for torturers in Brazil.


¹⁸⁸ Hermann, “Reformas, Endividamento Externo e o ‘Milagre’ Econômico,” 95. In 1973 Brazil imported 81% of the oil it consumed.
billion dollars in 1974. Meanwhile, the GDP growth slowed (from a 14% increase in 1973 to 8.2% the next year).\textsuperscript{189}

The oil shock helped shape the federal government development plan for the years 1974-79. The II Plano Nacional de Desenvolvimento, (II National Development Plan), or II PND, constituted of a series of public undertakings and incentives for specific private investments to solve the main bottlenecks in the economy and deepen ISI. The problem areas identified in the plan were infrastructure, capital goods, energy, and exports.

Energy had always figured as one of the most daunting problems in Brazilian infrastructure. The issue became even more pressing in the context of the oil crisis. Investments in energy were to include essentially an increase in the capacity of hydroelectric energy; research, exploration and production of oil; and the development of alternative sources that could reduce oil consumption, including nuclear energy and ethanol from sugarcane.

Public investments were paid with taxes and foreign loans acquired mainly by state companies. Although the oil shock had made imports more expensive, it had increased the availability of dollars in the oil producing countries that, in turn, began looking for new investments. High liquidity in the international market led to lower interest rates between 1975 and 1977. Petrodollars financed budget deficits all over Latin America in the mid-1970s, and Brazil was one of the biggest borrowers.\textsuperscript{190}

The Geisel administration took several measures to continue to attract foreign capital, including a reduction in the tax on remittance of interest abroad from 25% to 5%, and a drop in the minimum loan period from ten to five years.\textsuperscript{191} However, with those changes Brazil lost much of its control over the movement of foreign capital.

\textsuperscript{189} Hermann, “Reformas, Endividamento Externo e o “Milagre” Econômico,” 97.
\textsuperscript{190} Skidmore, \textit{The Politics of Military Rule in Brazil}, 180. External debt went from 6.2 billion dollars to 11.9 billion in 1974.
\textsuperscript{191} \textit{Ibid}, 180.
Partly as a result of the initial investments of the II PND, GDP grew over 10% in 1976, while inflation reached 46% that same year.\textsuperscript{192} The government reacted to inflation with a contractionary monetary policy, although credit continued to grow. The Geisel administration used up most of its foreign exchange reserves and continued to increase its external debt. Moreover, in an attempt to reconcile the high growth priority with a surplus in the budget and still avoid a significant increase in taxes, the government made most investments through state companies, which used foreign loans. The maneuver had two advantages: state enterprise spending did not show in the government budget and the high volume of loans abroad helped with the balance of payments. In an additional effort to control the balance of payments, the government restricted imports.

Yet, most of Brazil’s debt was incurred by the private sector. Private investments for the II PND were financed with BNDE loans with subsidized interest rates. However, overall interest rates were high to push borrowers to the international market and help control the deficit in the balance of payments. Domestic businesses became increasingly vulnerable to interest rate increases abroad and devaluations at home.\textsuperscript{193} Brazilian entrepreneurs complained bitterly at the time about their relative disadvantage in relation to the multinational corporations, which could access capital from their home firms.

The administration believed their maneuvers with the balance of payments and the high degree of overall borrowing were justified in the short-term by the expected results in the long-term: deepening of ISI, with a resulting decline in capital goods imports; reduced oil dependency; and export diversification, mainly through increase in export of manufactured goods, coupled with higher export capacity. The export policy worked. In 1978, for the first

\textsuperscript{192} Hermann, “Reformas, Endividamento Externo e o “Milagre” Econômico,” 102.
\textsuperscript{193} Skidmore, The Politics of Military Rule in Brazil, 207. By the end of the Geisel administration Brazil had accumulated a total of 43.5 billion dollars in foreign debt. The debt burden (payment of interest plus amortization) was 58.8%.
time in Brazil’s history, more than half of Brazil’s exports were manufactured products.\textsuperscript{194} Still, it was not enough to pay for the country’s imports, or the service on foreign loans and the country had to continue to borrow abroad.

Geisel maintained the science and technology policies initiated in the Costa e Silva administration and expanded by the Médici government. Over time the military administrations increased incentives for technology transfer. But as the national capital goods industry reached a certain level of sophistication, policymakers saw the possibility of reducing reliance on technology transfer and to acquire know-how.

Politically, Geisel announced a project for a slow transition back to democracy. He abolished the AI-5, and slowly gave more freedom to the press. There were signs that increased civil activity might be tolerated.\textsuperscript{195} Despite Geisel’s liberalization promises, in the end of his term yet another military officer succeeded him.

Democratic Transition and Economic Pressures in the Figueiredo Government

General João Figueiredo (1979-84) transferred Mário Henrique Simonsen from Finance to the Planning Ministry, responsible for all economic policies during the Figueiredo administration. Former head of Banco do Brasil, Karlos Rischbieter, became the new finance minister. Delfim Netto was brought back from France and assumed the Agriculture Ministry.

In 1979 inflation rose fast and Simonsen began to worry. He identified the pressure in the balance of payments as the main problem in the economy and the cause for the snowballing inflation rates. Then, in mid-1979 the second oil shock hit and developed

\textsuperscript{194} Skidmore, \textit{The Politics of Military Rule in Brazil}, 207.

\textsuperscript{195} Comissão Especial sobre Mortos e Desaparecidos Políticos, \textit{Direito à Memória e à Verdade}. In his first three years in office, however, torture and killing of political prisoners remained routine. In order to hide the violence and conceal the contradiction between the government’s promises and its practices of torture and assassinations, disappearances became more common.
countries increased their interest rates. As a consequence, the formerly favorable international setting became very hostile.

Given this scenario, Simonsen argued for a slowdown of the economy to control the balance of payments. This reasoning faced fierce opposition. Under a lot of pressure, Simonsen resigned in August 1979, and Delfim Netto was called to replace him and perform a new miracle. But soon it became clear that economics are dictated by reality and not by miracles, and reality had changed.

Delfim Netto maintained a rapid growth policy for as long as he could (that lasted only until December). His initial policy constituted of an increase in monetary controls and adjustment of the exchange rate to redirect demand toward domestic capital goods and to stimulate exports. Then, between 1979 and 1980 the government reduced credit and promoted a devaluation of 30% in the cruzeiro.\textsuperscript{196} Next he published a schedule of devaluations for the entire year of 1980, in an attempt to reduce inflationary expectations. DNetto tackled inflation in the fiscal front too and he balanced the budget.

Despite Delfim Netto’s efforts, inflation remained hard to control. In the mid-1979 a new wage adjustment schedule had allowed for biannual salary corrections, as opposed to the previous annual increases. Additionally, the practice of indexing contracts led to “inertial inflation.”\textsuperscript{197} In 1980 inflation reached an annual rate of 110.2\%.\textsuperscript{198}

The balance of payments also deteriorated that year. Negative real interest rates and an overvalued cruzeiro led to a combination of low savings and high imports. The government had to dig into its foreign exchange reserves. In March 1980 the administration increased duties on approximately 2,000 items, primarily chemicals and capital goods and introduced tuff local content rules. National content requirements for several capital goods

\textsuperscript{196} Hermann, “Reformas, Endividamento Externo e o “Milagre” Econômico,” 108.
\textsuperscript{197} Since inflation rose faster than the scheduled adjustments, new contracts at each period increased prices at a level that tried to recover past losses, leading to a vicious circle.
\textsuperscript{198} Skidmore, The Politics of Military Rule in Brazil, 231.
reached up to 90%.\textsuperscript{199} The GDP still managed to grow at an average of 8% for the 1979-80 biannual, partly because of a few II PND investments that were still being finalized.\textsuperscript{200}

Notwithstanding the deteriorating economy, Figueiredo stayed the course towards technological autonomy, initiated by his predecessors. In 1980 the administration created the Science and Technology Policy Advisory Group (GAPCT), composed of pro-autonomy intellectuals to serve as policy consultants. That same year, the government released the III PBDCT. The plan’s priorities were energy, agriculture, education, and welfare, with a special emphasis in the industrial sector.

However, by the end of 1980, the generalized disarray in the country’s economy was patent. Delfim Netto finally abandoned the program of pre-fixed devaluations and indexations as well as the entire high-growth strategy. GDP dropped by 1.6% in the next year, the first decline since 1942 (even in 1963 GDP had a 1.1% increase). GDP per capita declined 4.3% in 1981. Industrial production fell 3.3% in the first six months. Automobile total sales fell by 23.2% in the first seven months of 1981, compared to the same period the previous year. The only major sector to grow was agriculture (6.4%). The inflation rate was 95.2% for the year.\textsuperscript{201}

Recession became the main concern among Brazilian economists and businessmen. The size of the country’s debt was reason for worry but lost in priority to the declining economy. Moreover, 1982 was an election year, so Delfim Netto maneuvered with some easing in the economy to try to improve the most visible economic indicators at least until Election Day, in November. GDP grew by 1.4%, industry by 1.2%, and transportation and communication by 4% that year. The inflation rate increased, but only slightly (from 95.2% to 99.7%) compared to the previous year.\textsuperscript{202}

\textsuperscript{199} Adler, \textit{The Power of Ideology}, 168-69.
\textsuperscript{200} Hermann, ”Reformas, Endividamento Externo e o “Milagre” Econômico,” 109.
\textsuperscript{201} Skidmore, \textit{The Politics of Military Rule in Brazil}, 230-32.
\textsuperscript{202} Ibid, 232.
In August 1982 Mexico defaulted on its foreign debt, resulting in a capital flight from Latin America. Delfim Netto denied any intentions to resort to the IMF, something that would have been extremely unpopular. But as soon as elections were over, Delfim Netto announced that a negotiation between Brazil and the IMF was underway. The two parts reached an agreement before the end of the year. The settlement imposed more consistency to the restrictive monetary policy. At the beginning of 1983 Delfim Netto reduced the value of the cruzeiro by 30%, which this time resulted in real devaluation. Throughout 1983-84 the government also increased taxes, cut public investments, and used a variety of methods to minimize imports.

The economy went deeper into recession in 1983 and signaled a recover in 1984, but inflation continued to increase fast. GDP had a 5% decline in 1983, or a 7.3% fall in per capita terms. Inflation reached 223.8% that year. The most affected sector was industry. State enterprises were important customers for the sector, but the government had to cut spending. By the end of 1983 the projected idle capacity was 50%. Overall industrial output dropped 7.9% and capital goods production declined 23% in 1983. The economy had some positive results in 1984. GDP grew 4.5% and the trade balance closed the year with a surplus of 13.1 billion dollars. The deficit in the current account managed to reach a small surplus of 166 million dollars. In 1984 Brazil had 12 billion dollars in foreign exchange reserves.

The encouraging outcome in the balance of payments in 1984 was the result of a continuation of ISI combined with efforts to diversify exports and maintain a strong performance in the international markets in the face of the adverse global scenario. However, the next year the balance of payments deteriorated again.

---

204 An industrial recession helped reduce imports, since the sector was responsible for much of the demand for foreign goods.
205 Skidmore, The Politics of Military Rule in Brazil, 238; 254-55.
On the political side, the Figueiredo administration was marked by a slow return of power back to civilian leadership. In August 1979 a bill gave amnesty to all convicted or accused of “political crimes” and “connected crimes.” The law freed all political prisoners and exiles, with the exception of a few convicted of terrorism or armed resistance to the government. However, in a political trade-off, the language of the bill meant amnesty to torturers as well.

That same year, the administration allowed the formation of new parties. By the end of the year several parties had emerged. ARENA became Partido Democrático Social (Social Democratic Party), or PDS. MDB just added the word *Partido* (Party) to its name and became PMDB. Leonel Brizola fought with Getúlio Vargas’ grandniece for the control of PTB, associated with the former president. Brizola lost the dispute and created the Partido Democrático Trabalhista, (Labor Democratic Party ), or PDT. Leaders of the new unionism, led by Lula, founded the Partido dos Trabalhadores (Workers’ Party), or PT. Banker Magalhães Pinto and political veteran Tancredo Neves started the Partido Popular (Popular Party), or PP.

In 1982 over 45 million people voted for governors for the first time since 1965. They also chose mayors and representatives at every level except for president. This was the largest voter turnout in Latin American history to that day. The opposition won 59% of the total vote but did not secure a majority in Congress or in the electoral college (responsible for electing the president).  

---

206 Figueiredo’s political strategists convinced the president to allow, and even encourage, the formation of more parties in a move intended to break the opposition and reduce their power in the upcoming state and municipal elections and once the military gave full control of the administration to civilians.

1985 was marked by a massive campaign, known as “diretas já,” which demanded the immediate return of direct elections for president. The campaign started with the PMDB but was endorsed by leaders in the Catholic Church, the bar association, a few leading media vehicles,\textsuperscript{208} soccer stars, and show business personalities. Soon it had broad popular support. Rallies all over the country amassed upward of hundreds of thousands of people. In April 500,000 people gathered in downtown Rio de Janeiro and one million assembled in São Paulo. Later that month the Chamber of Deputies voted on an amendment to allow direct vote for president but the amendment fell short by 22 votes of the required two-thirds majority.\textsuperscript{209}

But the government could not ignore the massive demonstrations of civic spirit. They decided to nominate a civilian candidate to represent the government party (PDS) in the presidential elections. The opposition united behind the governor of Minas Gerais, Tancredo Neves. Many in the PDS were unhappy with Maluf’s nomination and defected from the party to form the Partido da Frente Liberal (Liberal Front Party), or PFL. The PMDB negotiated with the defecting group to include one of the PDS dissidents, José Sarney, in the presidential ticket in exchange for their vote for Neves. On January 15, 1985, the Electoral College elected Tancredo Neves with 480 of the 686 votes.\textsuperscript{210} Neves would fall ill and pass away before taking office.

Considerations About Developmentalism During the Military Regime

The military coup of 1964 represented a major setback to Developmentalism. As described in the text, the armed forces had intervened in Brazilian politics in several occasions. The organization had long acted as a moderating force, deciding who to veto from

\textsuperscript{208} Skidmore, \textit{The Politics of Military Rule in Brazil}. The newspaper Folha de São Paulo was one of the principal media outlets to support the movement. Meanwhile, Rede Globo, owner of one of the main newspapers and the most influential television station in Brazil largely ignored the “diretas já” movement.
\textsuperscript{209} Skidmore, \textit{The Politics of Military Rule in Brazil}, 243-44.
\textsuperscript{210} Ibid, 253.
power; taking over the presidency from those they did not approve, and returning it to civilians shortly after. However, in 1964 the military decided to govern. The man that planned and led the overthrow, and who became the first military president of the new authoritarian regime, was the conservative General Humberto Castelo Branco.

A long time sympathizer of UDN and personal friend of several of its leaders, Castelo Branco shared the party’s principles: legalism, anti-Vargas-style populism, and pro economic liberalism. Although it seems a paradox that the leader of an anti-democratic revolution is a defendant of the Constitution, in Castelo Branco’s view, he was protecting democracy from the communist threat. But now that he was in power, he decided to put the country in what he thought was the right direction before giving it back to civilian rule. He wanted to organize the political system and implement economic liberalism. Once the country was firm in those principles, Brazil would be ready to return to democracy.

With that purpose in mind, he acted to get rid of “irresponsible populists” and “subversive” communists, reorganize the political system, implement liberal economic policies, and reduce state presence in the economy. In Castelo Branco’s own words, his objective was to implement “reforms that would open new pathways and new horizons so that each person can rise according to his ability.”

Technically, Castelo Branco was still presiding over Jânio Quadros’ term, which was to end in 1966. The legalist General wanted to make all the changes he deemed necessary for the country within that term, and respect the next presidential elections. He needed to consolidate economic liberalism and a new party system in Brazil in only two years, so he had no time to waste.

One of his first actions was to implement the already mentioned operation cleanup and to send high-profile populist and leftist leaders into exile, including Kubitschek, Goulart,

---

211 For more on the moderating role of the Brazilian military and what changed in the institution and in the country as a whole that led to the military decision to stay in power, see Stepan, *The Military in Politics.*

Brizola, and Prestes. Under the excuse of ridding the country of the communist threat, he sent along any other leaders that could put at risk his plans to implement and consolidate liberalism. He did this to avoid a repetition of previous frustrations, when the military overthrew or destabilized populist leaders only to see them return to power or elect a political heir.\textsuperscript{213} If he were to break the developmentalist hegemony, he had to eliminate its leadership.

Castelo Branco then moved to the economy, and gave the leadership to Roberto Campos and Octávio Bulhões.\textsuperscript{214} Both had worked on the 1958 stabilization plan of the Kubitschek government, which was abandoned due to unpopularity and political pressure. Now, under a conservative president and with the state coercive machinery at work to tame or eliminate the most radical critics, Campos and Bulhões saw a new opportunity to implement the orthodox methods they deemed necessary. Their objective was to control inflation, correct the distortions that inflation and rapid ISI had created in the 1950s, cut the government budget, modernize the financial system, and restore investor confidence in the Brazilian economy.

One of the most important instruments in the Campos-Bulhões stabilization plan was the control of credit. The implementation of this policy had been unfeasible in previous governments, including in their failed stabilization attempt in 1958. Another instrument that had proved difficult to implement in democratic governments was wage control. Finally, tax reforms and concentration of revenue in the federal government would have been politically impossible without the authoritarian government backing. This time the duo Campos-Bulhões had no problem cutting credit, creating a new tax code and keeping wages down.

\textsuperscript{213} Vargas left power in 1945 only to come back in the ballots a few years later. He was destabilized in 1954 but his suicide helped maintain support for his ideas and elect Kubitschek. Conservatives finally thought they had won with Jânio Quadros but he proved to be another irresponsible populist (of the right) and resigned, giving rise to Goulart.

\textsuperscript{214} Campos was one of the authors of Kubitschek’s Plano de Metas. But he was a more moderate, cosmopolitan developmentalist. Over time, he grew increasingly conservative and even joined IPES in the 1960s. Bulhões had always been a committed orthodox.
Castelo Branco intended for a rapid stabilization. He wanted to be in power when the benefits of the liberal reforms began to show. This would give him some time in office to consolidate liberalism after the initial unpopular phase. However, his desire for legitimacy led him to choose a gradual approach to stabilization, as opposed to a Chicago School-style shock therapy, and this slowed recovery.

On the other hand, Castelo Branco’s reluctance to use force and completely crack down opposition to his policies got in the way of his attempt to achieve hegemony for his liberal ideas.\(^{215}\) It must be clarified once again that by no means the use of force is being defended here. Nothing justifies assassinations, loss of political rights, political imprisonments, torture, disappearances, summary loss of work, or any human rights violations. One life lost to state violence is one too many.

Despite many human rights abuses during his administration, the legalist Castelo Branco preferred moderation, so he did not eliminate opposition completely and even allowed the press to continue to work relatively freely and for dissenting opinions to be expressed publicly. Therefore, opposing ideas continued to circulate and not only competed against the ideology Castelo Branco was trying to advance, but also damaged the image of the administration. This would contribute to the loss of power of the Castelista group in 1967.

Another complicating factor for Castelo Branco’s intentions was the resistance inside the armed forces itself. To understand how could a military president face military opposition, it is important to differentiate the military as government and the armed forces as an institution. The military as government is composed only of a few individuals that form the core leadership in the executive, usually a General at the top, with his key staff, which may include some civilians. Also part of the military as government, but not necessarily easily controlled by the executive, is the security community, responsible for intelligence and

\(^{215}\) Quintin Hoare and Geoffrey Nowell Smith, ed., *Selections from the Prison Notebooks of Antonio Gramsci* (New York: International Publishers, 1971). For Gramsci, when the ideas of the ruling elites have not achieved hegemony, or a “spontaneous consent,” conformity may be achieved through coercion.
coercion. The military as institution is the general staff managing the military schooling system, carrying out the routine training, and day-to-day work back in the barracks.\textsuperscript{216}

The military as institution, is hence a complex organization. They have a few basic belief sets that are common to most if not all members, but beyond the fundamentals, they are very heterogeneous. Generally, officers believed their corps had no class affiliation, and represented no specific class.\textsuperscript{217} Instead, they represented the national interest and the “common good.”

The officer corps is thus nationalist. They put the nation’s sovereignty and the common good above all else. Beyond this, however, they disagree on many fronts, including on how to reach their shared goal of sovereignty and common good. As have been discussed in a previous section, in the ESG alone, there were several conflicting economic ideas.

Therefore, General Castelo Branco faced intense opposition to his economic policies not only from the MDB and the disappointed middle class, but also from within the military institution. He was reluctant to use force against civilian opposition, but he would definitely not have used force against the other officers. First because as much as the officers disagreed with each other internally, they were loyal to the military as an institution and they did not turn against each other publicly. Secondly, because those opponents also had access to arms and would not have been easily coerced.

By 1965 Castelo Branco realized he did not have enough time to consolidate his ideas and extended his presidency until 1967. It soon became obvious that this would not be enough time either. So the president made Congress approve a new constitution to maintain the military in power. His legalist stance kept him from trying to stay in power indefinitely and he decided to step down in 1967.

\textsuperscript{216} Stepan, \textit{Rethinking Military Politics}.
\textsuperscript{217} Stepan, \textit{The Military in Politics}.
But he was concerned that other generals would not have the same restrain that he
did, so he implemented a restructuring in the armed forces that imposed a limit in the number
of years colonels and generals could stay in active duty. Since the presidency was decided
largely according to seniority, this move would tamper down any top commanders’ plans to
linger in the presidency in the future. This decision was not just a matter of principle; it was
also a political maneuver. Castelo Branco knew his economic policies did not show result in
time to save his popularity and he would not be able to elect a successor of his liking. But he
hoped his political group could return to power in the near future.

Additionally, the restructuring of the military retirement-rules system led to the
superannuation of most military leaders associated with the nationalism of the Vargas years.
Hence, although Castelo Branco could not use physical force against other militaries, he did
make use of political artifacts to reduce the influence of opposition inside the armed forces.
However, the new group of commanders that emerged did not necessarily agree with Castelo
Branco’s liberal ideology.

What the new group did believe firmly was in applying military discipline, integrity,
and objectivity to government in order to lead the country to its “rightful position” as a
powerful nation.218 This way of thinking was very propitious to a close association with
technocrats that were expected to bring the scientific objectivity necessary to the
implementation of those goals.

The military governments that followed Castelo Branco had that trust in formal
rationality. This resulted on an increase in the influence of technocrats in government. The
aforementioned distinction between the military as government and the military as institution
meant that there was a separation between both. The military as institution had a veto power
over big decisions such as political succession, but largely abstained from day-to-day

218 Paulo-Tarso Flecha de Lima, “Liberalism Versus Nationalism.”
decision-making. Those affairs were left largely to the military as government, which centered decisions in the executive, where civilian technocrats played a large role.\textsuperscript{219}

Many of these technicians had initiated their careers in the Kubitschek years or earlier, in the Vargas era. But even the employees that started later, worked in a state bureaucracy that had been created by those developmentalist presidents to perform developmentalist projects. In other words, these public technocrats had been trained in organizations that had developmentalist principals in their mission statements.\textsuperscript{220} Although many public employees were fired during the Castelo Branco administration, most retained their positions and guaranteed the continuation of developmentalist principals in the state bureaucracy.

In the Costa e Silva administration, and after, the participation of these technocrats intensified. Their increased influence was followed by an expansion in the size of the bureaucracy and its body of technicians, especially in economic areas.\textsuperscript{221} Therefore, Castelo Branco’s biggest mistake in his attempt to consolidate liberalism may have been his decision to only restructure state enterprises but not dismantle them, while leaving the state bureaucracy almost intact. Once he stepped down, developmentalism took over the administration in the figure of the technocrats.

This became clear with Delfim Netto’s Plano Estratégico de Desenvolvimento (PED) and its focus on economic growth, and policies of expansion of the domestic market to create demand for durable consumer goods. Under the governments of Costa e Silva and Médici the economic team led by Delfim Netto decided to intensify industrialization through ISI. This would require increased investment in science and technology.

As mentioned before, the Médici administration began to put in practice the PED’s science and technology objectives. Beginning in 1969 his team created a set of policies and

\textsuperscript{219} Cardoso, \textit{On the Characterization of Authoritarian Regimes in Latin America}.

\textsuperscript{220} Bielschowsky, \textit{Pensamento Econômico Brasileiro}.

\textsuperscript{221} Cardoso, \textit{On the Characterization of Authoritarian Regimes in Latin America}. 
institutions that were meant to be the framework for future advancements in this area. The new semi-autonomous institutions were responsible for promoting Brazil’s scientific and technological autonomy.

For instance, in 1971 the government instituted the Basic Plan of Scientific and Technological Development (PBDCT), as part of the I Plano Nacional de Desenvolvimento (First National Development Plan), or I PND. The PBDCT became a major policy instrument in this area. Another example was the National System for the Development of Science and Technology (SNDCT), created by decree in 1972.

In 1973 the I PBDCT planned advancements in science and technology for the years 1973-1974. Top priorities involved new technologies in the areas of nuclear energy, aerospace, and oceanography; infrastructure technology in electricity, oil, transportation and communication; and industrial technology. The latter had 27 specified priorities, including electronics, capital goods, and minicomputer, just to name a few. The microcomputer sector was chosen for special development.\textsuperscript{222}

With the high economic growth of the “miracle” years, demand for computers increased, while capital became available for technology development. Several multinational computer manufacturers were interested in investing in Brazil, but technocrats inside the BNDE and the planning ministry called for taking advantage of this internal market to develop a national industry.

They argued that this initiative, combined with the ongoing advance of the ISI process into capital goods, would reduce Brazil’s dependence on imports and maintain the balance of payments surplus that it was experiencing at the time. Meanwhile, the navy pushed for computer policies for strategic reasons. As described earlier in the text, the armed forces had

\textsuperscript{222} Adler, \textit{The Power of Ideology}, 197.
long favored industrialization for security reasons, and the area of computers and software was the natural next step.

Both groups felt the computer sector was strategic, for economic and security reasons and they should create a national company and avoid the take-over of the incipient industry by multinationals. Hence, the government decided to go with a national option. In April 1973, the Médici administration established a holding company, Electrônica Digital Brasileira, which was to form a domestic computer production.

Throughout the 1970s and until the mid-1980s, a number of policies were created to cradle the national computer industry and protect it from foreign competition in an attempt to reduce Brazil’s dependency on foreign technology. In 1973 a regulation determined that foreign businesses that wanted to provide technical services in the fields of engineering, architecture, and agriculture to any Brazilian company, public or private, could only do so if they formed partnerships with domestic counterparts.

The computer industry and the science and technology sector in general, were only one example of the expansion of the role of the state in this period. Not only was the “economic miracle” a result of interventionist policies, but also the high levels of growth of the period led to an additional hike in state participation in the economy. This is evident, for instance, in the expansion of state enterprises during this period.

Between 1968 and 1974 approximately 231 new public companies were created in Brazil at the federal and state levels combined. These new firms occupied “empty spaces” of the productive structure. For instance, Nuclebrás was a public nuclear power company created with great military support to fill an empty space in alternative energy and possibly national security. In fact, national security was the strongest argument for the creation of a

---

223 Trebat, Brazil’s State-Owned Enterprises, 47.
224 Trebat, Brazil’s State-Owned Enterprises; Soo Pang, The International Political Economy of Transformation in Argentina, Brazil, and Chile since 1960.
state controlled nuclear industry in Brazil.\textsuperscript{225} Embraer was created in 1969 by the air force to produce airplanes for military and commercial use. Once again the security concerns were used to justify the creation of another state company. It was argued that Brazil could not depend on foreign companies for such strategic products as airplanes and aircraft parts.

Médici’s successor, Geisel, gained prominence mainly for his work as president of Petrobrás, not in the military ranks. Not surprisingly, his administration pushed the developmentalist project with great resolve. He intensified efforts to control modern technologies, increase autonomy, and reduce the dependence on multinational companies that had swollen in the previous administrations. Several state enterprises were created during Geisel’s government, while existing ones, such as Eletrobrás (electricity) and Telebrás (telecommunications), grew a lot in scale and national reach.

Of all the different methods that the state used to grow the number and scope of public companies, the most controversial was the creation and multiplication of subsidiaries. Existing state enterprises, most notably CVRD and Petrobrás formed these subsidiaries in a move “downstream” into less capital-intensive areas. In the mid-1960s Petrobrás was one company. In the early 1980s it controlled or was the major proprietor in over 70 subsidiaries and joint ventures.\textsuperscript{226}

This method allowed for a continuation in the swelling of public enterprises in spite of president Geisel’s prohibition, in 1976, of the creation of new public companies without presidential authorization. This prohibition was a reaction to business sector complaints about the excessive reach of state enterprises.

\textsuperscript{225}Trebat, \textit{Brazil’s State-Owned Enterprises}; Adler, \textit{The Power of Ideology}; Skidmore, \textit{The Politics of Military Rule in Brazil}. Nuclebrás failed both the security objective and its energy goals. See Trebat for a brief comment about the role of Nuclebrás in the process of increased state participation in the economy. Adler and Skidmore discuss the nuclear program, the rationale for its formation, and the politics involved in its creation.

\textsuperscript{226}Trebat, \textit{Brazil’s State-Owned Enterprises}, 51-52. A complete list of Petrobrás’ system of subsidiaries and affiliates in 1980 can be found on page 53.
As has been stressed many times in this work, the direct involvement of the state in the economy through the creation of state companies is widely accepted. However, it is justified on the basis that the domestic private sector does not yet have the capacity to invest in certain capital intensive and risky areas. Once the state begins to move beyond these spaces into sectors that the private sector could participate, there is resistance. This is one more demonstration of the Brazilian organic statist thinking. Direct state participation in the economy is highly tolerated, and even desired, but the principle of subsidiarity poses limits to that kind of intervention.

The principle of subsidiarity continued to curb the state’s excesses during the Figueiredo administration. In a reaction both to increased complaints by the business sector over the size of the state and to the second oil shock of 1979, Figueiredo implemented specific policies to roll-back state owned enterprises. That included the denationalization of companies that did not figure sectors considered “classic.” The Figueiredo administration did, however, give continuity to the national computer project, as described in the section about his government.

The second oil shock exposed the contradictions in the policy of debt-induced growth that had been used by the military for over a decade. Planning Minister Simonsen proposed an orthodox fix for the economic imbalances, but faced fierce opposition. The MDB had long been pointing to problems in the economic policy and saw the difficulties in the economy as a confirmation that they were right. However, they did not agree with Simonsen’s proposed solution either. They claimed the administration had not found the correct set of policies to give continuation to growth.

\[227\] Trebat, Brazil’s State Owned Enterprises.
Therefore, it was not a matter of opposition to developmentalist policies; it was a problem of finding the correct set of policies, or to fine-tune development. They claimed the military was inept in carrying economic policies and that the opposition would be more competent in making the right choices, but all within a developmentalist framework.

It was not just the opposition that fought the possibility of a slowdown. The planning minister became the target of criticism from all fronts. Groups within the incoming administration were unhappy that the economic bonanza would end right when it was their turn in office, while the president was concerned an economic slowdown would interfere with plans to maintain control over the re-democratization process.

Entrepreneurs worried that firms that operated with little working capital would not resist such economic change of pace. Finally, the general public, especially the elites, had gotten accustomed to fast growth and refused to believe it would have to end. They thought Brazil could isolate itself from the rest of the world and continue to grow.

They hoped for a miracle, so the administration accepted Simonsen’s resignation and replaced him with Delfim Netto. He tried to deliver on the country’s desire for developmentalist policies, but could not keep that up for long. In 1981 he had to shift to orthodox policies. Nevertheless, 1982 was an election year and he relaxed economic policies again. But the Mexican moratorium in September of that year and the international debt crisis that ensued were the final blow to Figueiredo’s irresolute economic policies. Right after the November elections his administration announced an agreement with the IMF, and Developmentalism faced a new setback.

---

CONCLUSION

This is a study of developmentalism as the ideology that guides economic policy in Brazil. The focus is the military regime that ruled the country from 1964 to 1985. The main argument is that, contrary to what most of the literature says, the military coup did not represent a fatal blow to developmentalism. This work summarizes the history of developmentalism and its consolidation to show that, by the time General Castelo Branco took over in 1964, developmentalism was so deep-seated in the Brazilian economic thinking that even a president with ample access to coercive instruments could not eliminate it. This thesis demonstrates that developmentalism resisted and returned much stronger in the subsequent military governments.

Developmentalism is the main ideology guiding economic policy in Brazil. It has such a powerful influence that even an authoritarian government could not eliminate it. This thesis has described how developmentalism arose in Brazil in the first half of the 20th century, was consolidated in the 1950s, and survived President Castelo Branco’s attempts to liberalize the economy. It was argued that by the 1960s and 1970s developmentalism was too deep-rooted in the Brazilian economic thinking and could not be easily eliminated.

It became clear, however, that although General Castelo Branco had access to ample coercive apparatus, he opted to avoid the use of full-fledged force against the opposition. This happened partly because Castelo Branco had a legalist background, and partly because much of the opposition to his orthodox economic policies was in his own base and within the military institution, which he respected and possibly feared.

Castelo Branco’s legalist stance also kept him from trying to stay in power. The brevity of his administration turned out to be another constrain on the consolidation of his
favored ideas. But the biggest obstacle to Castelo Branco’s vision of a liberal Brazil was the existing state bureaucracy and its technocrats.

Generations of public employees had been trained within the state apparatus, under developmentalist mission-statements, and were ready to advance their ideology regardless of who was in power. Once Castelo Branco stepped down, the developmentalist objectives of those technocrats combined with the military nationalism into a renewed favor of rationality. The two groups formed a “solid alliance” that worked together for a strong state presence.\(^{230}\)

However, by the second half of the 1970s the state had grown too big even for Brazilian standards. The organic-statist vision of the polity favors a large state presence, but the principle of subsidiarity poses limits to how much the state can extend its influence. With the 1982 debt crisis, those limits were exacerbated by external forces, beyond the control of Brazilian policymakers. Yet, despite those attempts to prune the state’s overreaching branches, especially on the part of business elites, developmentalism remained much alive in the Brazilian ideal. This was clear in hope for a new miracle that led to Delfim Netto’s return to government in the early 1980s. However, conditions had changed dramatically. Brazilians learned the hard way that there is no such thing as miracles. At least not in the economy.

\(^{230}\) Trebat, *Brazil’s State Owned Enterprises.*


Fonseca, Pedro Cezar D., and André F. Haines. “Desenvolvimentismo e Política Econômica: Um Cotejo entre Vargas e Perón.” *Economia e Sociedade* 21


Peixoto, João Paulo M. “The Brazilian State Since Vargas.” In *The Brazilian State:*


———. The State and Society: Peru in Comparative Perspective. Princeton:


