

**DEVELOPMENT and
CRISIS in BRAZIL,
1930-1983**

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The Crisis of the 1970s

The expansion that began in Brazil in 1967 reached its high point in 1973. Starting in 1974, an economic slowdown set in, reaching its culmination with the great recession of 1981. Between 1967 and 1973 the gross domestic product grew by an average of 11.3 percent per year, whereas between 1974 and 1981 the growth rate was only 5.4 percent. Industrial output suffered a more marked drop: In the first period it increased 12.7 percent annually, whereas between 1974 and 1981, the average annual increase was only 5.4 percent.

Thus Brazil was going through a second industrial cycle. Since the 1950s the Brazilian economy had attained sufficient industrial density to reflect the classic economic cycles. The existence not only of a complete consumer goods industry, but also of capital goods and basic inputs industries, created the conditions for the economic cycles of overaccumulation and underaccumulation of capital to become endogenous, closely linked to the internal dynamic of the Brazilian capitalist system. Brazil's economic cycles were no longer merely a reflection of the central economic cycles, repeated in Brazil by means of the rise and fall in the prices of export products (especially coffee) and the volume of our exports in dollars. Thus the Brazilian export cycle was no longer an exogenous one corresponding to the primary export model, but rather became a result of the internal dynamic of the Brazilian capitalist system. Yet at the same time, the internal economic cycle continued to reflect the cyclical movements of international capitalism, to which the Brazilian economy is naturally and increasingly tied. Table 8.1 shows the evolution of Brazilian output in the last two industrial cycles.

The first question to be asked is why this reversion of the economy took place in 1974. One should also examine what happened to the rate of inflation, the foreign debt, and the distribution of income, at the point when the economy entered this cyclical slowdown. The answers to these questions naturally lead to a closer examination of the economic policy practiced during this period.

TABLE 8.1
Output in Relation to Industrial Cycles
(annual growth rates)

Periods	GDP	Industry	Agriculture	Services
1955-62	7.1	9.8	4.5	6.8
1963-67	3.2	2.6	4.2	3.7
1967-73	11.3	12.7	4.6	9.8
1974-81	5.4	5.4	4.9	6.6

Source: National Accounts, Fundação Getúlio Vargas, and *Conjuntura Econômica*, 35 (May 1982) for 1981 GDP.

Reversion of the Cycle

The first question about the crisis that began in 1974 is whether it is in fact a cyclical phenomenon. According to the neoclassic or monetarist economists, capitalist economies tend to balance out automatically, so there is no reason to speak of cycles. In fact the neoclassic economists encounter great difficulties in formulating a theory concerning economic cycles. They may admit that such cycles occur, but their explanation is always related to exogenous factors. In the case of Brazil, the exogenous factor pointed to was the oil crisis that began in the second half of 1973. Accordingly, one of the most significant representatives of this school said of the economic slowdowns between 1962 and 1980: "The recessions in Brazil's growth were influenced by external crises," later specifying that "in the most recent years of growth recession—1975 and 1977—we have the obvious direct and indirect effects of the oil crisis . . . and to complement this fact we had the finance crisis of the 1970s,"¹ that is, the large increase in interest rates that began in 1979.

Although these exogenous factors are undoubtedly important, it is obvious that they explain very little about the cyclical fluctuations in the economy. The latter are always caused by overaccumulation in the expansive phase, followed by a drastic reduction of investments in the slowdown phase. This phenomenon can be systematically observed in all capitalist economies. It is true that the 1973 oil crisis helped provoke the cycle's reversion, but it is also clear that the extraordinary accumulation then realized would also necessarily lead to crisis. As Table 8.2 demonstrates, industrial investment grew at an annual rate of 26.5 percent between 1967 and 1973, taking a vertical drop to only 0.1 percent between 1973 and 1980. Obviously, such an absolutely incredible growth rate could not be maintained for very long.

TABLE 8.2
 Industrial Output and Accumulation Throughout the Cycle
 (annual growth rates)

Periods	Investment in Manufacturing	Manufacturing Industry				Total
		Non- durable Consumer Goods	Durable Consumer Goods	Capital Goods	Inter- mediary Goods	
1955-62	17.4	6.6	23.9	26.4	12.1	9.8
1962-67	-3.5	0.0	4.1	-2.6	5.9	2.6
1967-73	26.5	9.4	23.6	18.1	13.5	12.7
1973-80	0.1	4.4	9.3	7.4	8.3	7.6

Source: José Serra, "Ciclos e Mudanças Estruturais na Economia Brasileira do Após-Guerra," *Revista de Economia Política*, no. 2 (April-June 1982).

Nevertheless, overaccumulation explains the reversion of the economic cycle only to the extent that it lowers industry's expectations of profit, and subsequently investments. In principle, a reversion of the economic cycle occurs by virtue of a reduction in the rate of capital accumulation, which in turn results from a drop in projected profit rates in relation to interest rates.

In 1974, the global rates of profit and accumulation still continued to increase, but probably the rates expected by the consumer goods industry (Department II: wage goods, and Department III: luxury consumer goods) were already on the decline, implying a subsequent decrease in the rate of accumulation. Only the Department I investments (capital goods), promoted by the second National Development Plan (NDP), were maintained.

Starting in 1974, the reduced rate of accumulation occurred particularly in the durable consumer goods industry (and especially in the automobile industry), which had led the expansive cycle. This was thus a classic crisis of underconsumption. The only difference, as I have previously observed,² is the fact that not only workers' wages, but also and principally the technobureaucratic middle class's salaries increased less than did profits in the expansive phase of the cycle. If consumption is considered to be a function of wages and salaries, and investments (and consequently industrial output) to be a function of profits, then it is easy to see that though the purchasing power of workers and the salaried middle class (which served as the basic market for the automobile industry) was growing, the production of durable consumer goods was increasing much more rapidly. In the years 1967-1973, the durable consumer goods industry grew at the explosive annual rate of 23.6 percent, whereas average wages in the same period (statistics are not available differ-

entiating wages from salaries) increased at an annual rate of only 3.1 percent, as one can deduce from the data in Table 8.7. Even considering that the consumption of durable goods is also partly a function of profits, it is apparent that this overaccumulation in the durable consumer goods industry could not be sustained. Overaccumulation and consequently overproduction thus occur in relation to consumers' purchasing power.

Consumers' purchasing power was being artificially stimulated by the institution and generalization of direct consumer credit, made possible by the establishment of the price indexation in 1964 (which in practice partly annulled the Usury Law, removing the 12 percent annual limit on interest). By 1973, however, consumers were no longer able to go further into debt. Since the great majority of them already were in debt, direct consumer credit was no longer causing demand to increase more than income.

It should be observed that this interpretation, which attributes the reversion of the cycle to underconsumption, is not one commonly accepted by the neo-Marxist and post-Keynesian economists who represent an alternative vision to neoclassical monetarism.³ Though the theory of underconsumption as an explanation for the economic cycle has solid bases not only in reality but also in the thinking of Marx, Rosa Luxemburg, Keynes, Baran and Sweezy, and Celso Furtado, it is frequently criticized, especially by orthodox Marxists, who consider it to be "reformist" because it presupposes that an adequate income policy and administration of aggregate demand could to some extent neutralize the cycle. The orthodox economists seek to explain the cycle in terms of the tendency (which has become a question of faith) of the organic composition of capital to increase, the decrease in the output-capital relation, and finally the decrease in the rate of profit. Nevertheless, I know of no Brazilian economist who has seriously used this theory to explain the reversion that occurred in 1974. In fact, though this theory has a certain logical consistency, it is of little help in explaining the short-term economic cycles (lasting about ten years) that I am examining here. In reality, what tends to happen is a certain increase in the organic composition of capital when the cycle is approaching its high point, because capital accumulation increases more quickly than wages and salaries. However, this fact is compensated for by the growth in the rate of surplus value, because the volume of profits is also increasing more quickly than the volume of wages and salaries, so that the rate of profit does not fall as a function of the increase in the organic composition of capital. It only falls in terms of expectations when enterprises no longer have consumers to buy their products.

A third explanation, also adopted by contemporary Marxism, and with a solid basis in Marx's thinking, is that the rate of profit decreases during the high point of the cycle as a result of the exhaustion of the industrial reserve army and the increased wage rate. Though this theory is of great value in explaining the cyclical reversions of the central countries with their strong unions, it explains far less in a country like Brazil where, aside from open unemployment, there is a large and permanent contingent of underemployed workers. However, at the cycle's peak in 1973, when there was a much lower level of unemployment, there was an increase in real wages that may have had some influence in the cyclical reversion.⁴

The perception that both the theory based on the increase in the organic composition of capital and that based on the exhaustion of the industrial reserve army were inadequate, together with a curious resistance to the theory of underconsumption (which can be explained only by the virulence of the orthodox Marxists' critiques of this theory) led various Brazilian economists to adopt another theory concerning economic cycles. This theory, advanced in 1976, was based on the concept of disproportion.⁵ Nevertheless, these authors finally ended up with a position based on the underconsumption theory. This is clearly and correctly stated by Maria Conceição Tavares: "The recessive tendencies appear first in the nondurable goods sectors, given the fact that the majority of wages increase much less than output."⁶

The disproportion theory is really a theory of the economic cycle with Marxist origins, and in the final analysis is also a theory of underconsumption. This theory divides the economy into two sectors—Department I, producer of capital and intermediary goods, and Department II, producer of consumer goods—and assumes that because profits increase faster than wages in the expansive phase of the cycle, then Department I will also increase more rapidly than Department II in this phase. In Keynesian language, it is the accelerator mechanism that is at work. This disproportionate growth in the output of capital goods finally leads to their overproduction in relation to the consumer goods industry. Thus profit expectations in the capital goods sector are reduced, cutting off investments. This reduction has a multiplier effect on the economy as a whole, setting off a cyclical slowdown. Though it differs from and complements the original underconsumption theory by dividing the economy into two departments (or three—Department II being separated into durable consumer goods and wage goods), the disproportion theory is also a theory of underconsumption.

However, its originators did not perceive this fact. They saw only that Brazil's industrialization had entered a period of serious intersectoral and intrasectoral disequilibrium between 1967 and 1973. This basic

disequilibrium was a result of the durable consumer goods industry's having grown more rapidly than the capital goods industry, and it was to this fact that they attributed the crisis.

A more rapid growth of the consumer goods industry could not lead to a crisis of disproportion. That is to say, decreased profit expectations and a consequent fall in investments in this department could not lead to such a crisis because they do not lead to reduced production and investments in Department I. What happens is merely that pressure is placed upon the trade account, with a greater importation of capital goods and basic inputs (which in fact occurred). A crisis of disproportion occurs when there is overaccumulation in the capital goods industry in relation to the consumer goods industry because of the insufficient growth of the latter, and when, as a result, Department I is suddenly forced to paralyze its investments. This was definitely not the case in the years 1967–1973 in Brazil. At this point, there was not insufficient growth in Department II.

Increasing Inflation

Once the economic slowdown began, the rate of inflation, which had been falling up until 1973, again began to rise. Table 8.3 shows this increased inflationary tendency throughout the entire 1974–1981 period. It is true that in the years in which the GDP's growth rate fell even more because of monetarist policy measures (1975, 1977, and especially 1981), the rate of inflation also fell slightly. Yet the general tendency of the inflation rate was clearly to increase in the slowdown period (1974–1981), when it reached an average rate of 60.0 percent in contrast to 19.5 percent between 1967 and 1973 (Table 8.3). On the other hand, it is important to note that whereas in the first period the means of payment increased on the average at a rate almost double that of inflation (35.6 percent versus 19.5 percent) and this showed a declining tendency, in the second period, although the average growth rate of the means of payment was less than the average rate of inflation (53 percent versus 60 percent), the latter increased.

The theory developed by Ignácio Rangel to explain the increased inflation rate in the slowdown phase of the previous cycle is in complete agreement with this observation.⁷ The cyclical slowdown provokes an increase in the rate of inflation, to the extent that inflation becomes a mechanism to defend the accumulation process. In reality, the more general cause of inflation is the class conflict over distribution. In Brazil, because of the political weakness of the working class, inflation is fundamentally a fruit of continuing attempts by the capitalist class to

TABLE 8.3
Inflation, GDP, and Means of Payment
(annual percentage variations)

	Gross Domestic Product	Inflation (General Price Index)	Means of Payment (M ₁)
1967	4.8	28.3	45.7
1968	11.2	24.2	39.0
1969	10.0	20.7	32.5
1970	8.8	19.3	25.8
1971	12.0	19.5	32.2
1972	11.1	15.8	38.3
1973	14.0	15.5	47.0
1967/73	11.3	19.5	35.6
1974	9.5	34.6	33.5
1975	5.6	29.4	42.8
1976	9.7	46.2	37.2
1977	5.4	38.8	37.5
1978	4.8	40.8	42.2
1979	6.8	77.2	73.6
1980	7.9	110.3	70.2
1981	-1.9	95.1	73.0
1974/81	5.4	60.0	53.0

Source: Fundação Getúlio Vargas and Banco Central.
Índice Geral de Preços, Conjuntura Econômica.

increase or at least maintain its rates of profit during the cyclical slowdown.

Starting in 1974, two mechanisms were put into practice that increased the rate of inflation while serving to maintain capitalist accumulation: "administered inflation" on the part of oligopolistic enterprises and "compensatory inflation" on the part of the state.⁸ By means of administered inflation large oligopolistic enterprises increase their profit margins (profit over sales) in the slowdown phase in order to compensate for decreased sales and maintain their rate of profit (profit over capital). Yoshiaki Nakano demonstrates this fact definitively with data from the great recession of 1981. When inflation was 105 percent, as measured by the General Price Index, between February and July 1981, the competitive sectors increased their prices about 60 percent, whereas the average increase in prices in the oligopolistic sectors was 170 percent.⁹

But this kind of inflationary behavior on the part of the oligopolistic enterprises dates back to 1974. In fact, inflation and recession, that is, stagflation, can be understood only in the context of an oligopolized and indexed economy.

Administered inflation is apparent in the effects that domestic prices suffered as a result of the first two oil crises (1973 and 1979). Though these crises did not have the excessive importance that monetarist economists assigned to them, the "imported inflation" administered by the OPEC cartel doubtless contributed to the increase in inflation.

Compensatory inflation has its origins in the state's economic policy. It can be the Keynesian policy of increasing state expenditures in general in order to restimulate aggregate demand, or it can also be, as recently in Brazil, the establishment of an enormous system of subsidies for industrial export items, the consumer goods industry, agriculture, and the state enterprises' accumulation. These subsidies, paid out of the monetary budget, destabilize the state's global budget (the fiscal budget remains balanced, but this is of little importance). The deficit leads to the issuing of new currency, which naturally accelerates inflation if certain sectors of the economy are functioning at close to full employment. This compensatory increase in the amount of circulating currency is not exogenous to the economic system, as the monetarists claim, but rather strictly endogenous to the extent that it is a result of the very dynamic of capitalist accumulation.

Administered and compensatory inflation explain the increased rate of inflation. Three related factors explain why once a determined level of inflation is reached, this level tends to be maintained. In the first place, the propagation mechanism is strengthened by the oligopolized and cartelized nature of the economy. When a recessionary economic policy seeks to fight inflation, if businesses, especially oligopolies, are not able to increase their profit margins, they manage at least to pass on their cost increases and therefore to maintain their existing margins. A decrease in the inflation rate requires decreasing profit margins. Second, the system of indexing debts and credit, wages and rents, ensures continuing inflation, while at the same time it to some extent neutralizes those effects that are distortionary and lead to the concentration of income. Finally, because the real quantity of currency decreases with inflation if it is not nominally increased, the government is forced to issue new currency and increase credit in order to maintain the economy's level of liquidity, thus creating a deficit and sanctioning the existing inflation.

In the case of Brazil, starting in 1974, the public deficit (and the resulting nominal increase in the supply of currency) served to maintain the existing level of inflation (thus sanctioning it) rather than to accelerate

inflation, because at no point did the economy return to an approximation of full employment.

The Foreign Debt

Another consequence of the cyclical reversion was a disequilibrium in Brazil's balance of trade and current account at the time, which in turn resulted in an explosive growth in foreign debt. By assuming this debt, the country sought to postpone or bypass the economic slowdown. In turn, the external disequilibrium now became a cause of the crisis (in the same way as inflation), to the extent that it forced the government to adopt recessionary measures to reduce importations.

The foreign debt had already begun to accelerate during the "miracle." As Table 8.4 shows, the gross foreign debt almost quadrupled between 1967 and 1973. Since the reserves also increased greatly, the new foreign debt almost doubled in this period, increasing from \$3,173 million to \$6,155 million. As the increase in reserves shows, the debt during this period was based on increased international liquidity, that is, on the increased availability of Eurodollars for foreign loans. The government's strategy was to increase the gross foreign debt as much as possible while at the same time maintaining its own guarantees with increased reserves.

The debt was used to finance deficits in the trade account, which in turn would permit an increased rate of accumulation. However, though consumer goods were not directly imported, the commercial deficits also led to increased consumption, to the extent that prime materials and machinery were imported for the domestic production of consumer goods.

The trade account, which was usually favorable (in order to compensate for the deficit in services: freight, insurance, tourism, and interests), began to show a deficit in 1970. Between 1960 and 1969, the surplus in the trade account was \$2,103 million, which is considerable in light of the small scale of Brazil's foreign trade at the time. Yet in the first years of the 1970s, even before the first oil crisis, Brazil began to finance its expansion with foreign loans. In the period between 1970 and 1973, the trade account's surplus turned into an accumulated deficit of \$346 million.

When oil prices quadrupled at the end of 1973, it would have seemed natural for this policy concerning commercial deficits and foreign debt to change. However, it did not. The euphoria of the miracle had a contagious effect on Brazilian economic policy. We declared ourselves an "island of prosperity" and began to formulate grandiose projects for the second National Development Plan (NDP). These were centered around the development of the basic input industry, which would be

TABLE 8.4
Balance of Payments and the External Debt
(in millions of \$)

Year	Exports	Imports	Trade Balance	Net Services ¹	Interest	Current Account Balance	Gross Debt	Reserves
1967	1,654	1,411	213	-270	-184	-237	3,372	199
1968	1,881	1,855	26	-328	-144	-508	3,780	257
1969	2,311	1,993	318	-367	-182	-281	4,403	656
1970	2,739	2,507	232	-462	-234	-562	5,295	1,187
1971	2,904	3,247	-343	-560	-302	-1,307	6,622	1,723
1972	3,991	4,232	-241	-730	-359	-1,489	9,521	4,183
1973	6,199	6,192	7	-1,010	-514	-1,688	12,572	6,415
1974	7,951	12,641	-4,690	-1,532	-652	-7,122	17,166	5,269
1975	8,670	12,210	-3,540	-1,429	-1,498	-6,700	21,171	4,040
1976	10,128	12,383	-2,255	-1,574	-1,809	-6,013	25,985	6,644
1977	12,120	12,023	97	-1,576	-2,103	-4,037	32,037	7,256
1978	12,659	13,683	-1,024	-1,720	-2,695	-5,927	43,511	11,895
1979	15,244	18,084	-2,839	-2,378	-4,185	-10,742	49,904	9,689
1980	20,132	22,955	-2,823	-3,120	-6,311	-12,807	53,847	6,913
1981	23,293	22,091	1,213	-2,837	-9,179	-11,717	61,411	7,507

¹ Net Services do not include interest, profit and dividends.

Source: Banco Central and Conjuntura Económica.

handled fundamentally by state enterprises, and the capital goods industry, under the control of national entrepreneurs. Between 1974 and 1976 we accumulated a commercial debt of \$10,485 million.

This development strategy, which shifted the emphasis from Department III, the production of durable consumer goods, to Department I, the production of capital goods and basic inputs, was theoretically correct. But it was overly ambitious for the times, inviable in the new international situation. Within this context of developmental euphoria, in 1974 alone our trade account showed a deficit of \$4,690 million and our gross debt increased almost 50 percent, whereas our reserves began to decline. The next years of the second NDP, 1975 and 1976, continued to be years of very high deficits, and only in 1977, when we came to our senses and abandoned the plan, did we show a trade surplus.

However, during this same year our foreign debt had reached such a high level that it tended to snowball. We were \$32,037 million in debt, with interest alone amounting to two billion dollars. In 1979, when the United States initiated the restrictive monetary policy it still maintains today, generating dramatically increased interest rates, Brazil paid more than \$4 billion in interest. In 1981, with a gross debt of \$61,411 million, Brazil paid out \$9,179 million in interest, which represents 39 percent of the value of our export products. In fact, it is interest rather than the trade deficit or services that has become the main element responsible for this snowballing debt, which got out of control and no longer has any positive effect on the rate of accumulation or even the rate of consumption. At first, between 1970 and 1976, Brazil borrowed money to increase its rates of accumulation and consumption. Later, between 1978 and 1980, Brazil borrowed money to maintain its level of consumption. Since 1981, we borrow not to maintain consumption, but almost exclusively to pay interest.

In the first years of the 1970s, the strategy was reasonable to the extent that the domestic rate of return was higher than foreign interest rates. The only problem at this point was that not everything we imported by borrowing was used for investment. A large part of our imports were used indirectly for consumption. This is why, even though we systematically increased our exports (at 20 percent per year during the 1970s) they were not sufficient to ensure a trade surplus. In fact, there were two factors that made a surplus in our trade accounts increasingly difficult to attain. On one hand, the increasing foreign debt had only a secondary effect on our export capacity. On the other hand, there was a serious deterioration in our terms of trade starting in 1977, which was further aggravated by the second oil crisis in 1979. As Table 8.5 shows, the price index for Brazilian exports in relation to our imports fell from 112.7 to 65.1 between 1977 and 1981. And beginning in 1979,

TABLE 8.5
Foreign Rates

Year	1	2	3	4	5	6
	Import Coeffi- cient	Import Coeffi- cient (minus oil)	Terms of Trade Index (1970=100)	Net Debt/ Exports	Debt/ GDP %	Exchange Valuation Index (1970=100)
1970	5.4	5.0	100.0	1.50	9.0	100.0
1971	6.1	5.5	92.8	1.69	9.2	94.0
1972	6.7	6.1	98.2	1.34	8.6	92.4
1973	7.4	6.7	107.9	0.99	7.4	91.0
1974	11.5	9.1	88.3	1.50	10.8	87.0
1975	9.3	7.3	85.5	1.98	13.1	85.2
1976	7.8	5.7	96.0	1.92	12.3	85.5
1977	6.7	4.7	112.7	2.04	13.8	81.7
1978	6.6	4.6	94.5	2.50	15.2	75.6
1979	7.7	5.0	89.1	2.64	17.2	65.2
1980	9.2	5.4	70.2	2.33	18.8	56.8
1981	7.7	4.0	65.1	2.31	18.8	68.9

Source: (1) Banco Central do Brasil, Annual Reports 1980 and 1981.
 (2) Banco Central do Brasil, Annual Reports 1980 and 1981,
 and April 1982 Monthly Bulletin.
 (3) Ibid.
 (4) Banco Central and *Conjuntura Econômica*.
 (5) Ibid.
 (6) Banco Central do Brasil, Fundação Getúlio Vargas.

international interest rates increased rapidly, whereas domestic profit rates fell. At this point, the foreign debt not only snowballed uncontrollably but became a heavy burden on the Brazilian economy as a whole.

Thus the foreign debt became the main obstacle to the country's economic development. Because Brazil was heavily in debt and paying high international interest rates, it was to be expected that the international bankers would call for greater and more specific austerity measures and that the Brazilian government would have to adopt a more restrictive economic policy. As occurred in 1981, the international bankers have imposed a recessionary monetarist economic policy that seeks to control inflation and reduce imports. The Brazilian government, paralyzed and with little or no bargaining power, is incapable of proposing an alternative administrative economic policy and must give in to the bankers' demands.

The result of this situation is that it becomes more and more probable that Brazil will be forced to renegotiate its debt. (For further discussion of renegotiation, see "The Total Crisis of 1983" in Chapter 10.) It will probably not happen until our reserves reach a very low level because of the refusal of the international banks to renew our credit. In the final analysis the decision to renegotiate the foreign debt, which will

cause the Brazilian economy even greater losses, will not be Brazil's, but that of twenty or thirty big banks which dominate international finance.

The Second National Development Plan and the Limited Slowdown

The beginning of the economic slowdown in 1974 could be clearly observed. At its peak in 1973 the GDP grew 13.9 percent, whereas in 1974, it dropped to 9.8 percent. But the slowdown between 1974 and 1979 was very gradual. Really it can be considered a slowdown only in comparison to the great expansion immediately preceding it. In fact, the GDP grew at an annual rate of 6.9 percent between 1974 and 1979, an average rate that equals that of Brazil's growth since the 1940s. This moderate slowdown, which ended in 1980 with an 8 percent growth rate, was possible because on one hand inflation served as the economy's defense mechanism against the crisis, and on the other, the foreign debt permitted the rate of accumulation to remain relatively high, even though the rate of profit was falling.

In fact, the rate of accumulation, propped up by the foreign debt and by state investments under the second National Development Plan, continued to rise in 1974 and 1975, although the cycle had already turned around. The fact that the rate of accumulation was maintained at such a high level after the cycle's reversion is surprising. Usually it is the drop in the rate of accumulation (provoked by reduced rates of profit anticipated in relation to interest rates) that begins the slowdown. This was not the case in Brazil because the state, giving priority to the capital goods and basic input industries through its second NDP, continued to make large investments itself and to stimulate investment in Department I. However, as Maria Conceição Tavares observes, though the economy practically doubled its productive capacity between 1973 and 1975, "the relative scale of the capital goods sector is insufficient to create an 'autonomous demand' that is able to stimulate its own demand and that of the entire production goods sector."¹⁰

On the other hand, in the durable and nondurable goods industries, which are the most important in terms of total output, the rate of accumulation dropped very quickly as consumers, already in debt and well-stocked with durable goods, no longer continued to increase their consumption as fast as during the "miracle." José Serra observes that "this variation in the cycle is not due to problems of demand in terms of aggregate investment nor to restrictions in the supply of import products. The difficulties arise in terms of the current demand for durable and nondurable consumer goods."¹¹

TABLE 8.6
Basic Variables

	(1)	(2)	(3)	(4)
Year	Profit Rate	Investment Rate	Marginal Output/ Capital Ratio	Growth Rate of GDP
70	nd	21.7	0.36	8.8
71	nd	22.5	0.47	12.0
72	nd	22.7	0.44	11.1
73	18.3	23.4	0.50	14.0
74	21.4	24.9	0.29	9.5
75	18.2	26.8	0.17	5.6
76	20.8	26.6	0.33	9.7
77	18.0	24.9	0.20	5.4
78	14.3	25.2	0.16	4.8
79	10.7	24.7	0.26	6.8
80	nd	24.3	nd	7.9
81	nd	22.0	nd	-1.9

Sources: (1) Bonelli and Guimaraes, "Taxes de Lucro de Setores Industriais no Brasil, 1973-1979," *Estudos Econômicos* 2, no. 3, pp. 93-114.
(2), (3), and (4) Brazil's National Accounts, published by the Fundação Getúlio Vargas.

Starting in 1976 when it became apparent that the second NDP was inviable and had to be abandoned, the rate of accumulation began to fall. The incremental output-capital ratio, which serves to measure investment productivity, was already in full decline, as Table 8.6 shows.

This decrease in the output-capital ratio reflects the fact that the GDP's growth rate fell more quickly than the rate of accumulation. While the second NDP's economic policies continued to stimulate accumulation in its high-priority sectors, they also sought to control aggregate demand through monetary and credit restrictions. As a result, the rate of accumulation was maintained, whereas the growth rate decreased. But the most important factor in the reduced output-capital relation is the long maturation of the large state investments made at the time. These include the Itaipu hydroelectric plant, the steel railway, Usiminas, Açominas, and Tubarão port, some of which are still unfinished today (October 1982). When these projects were halted or slowed down, because Brazil simply did not have the resources to support investments

of such megalomaniac proportion, available resources were squandered and the output-capital ratio was even further reduced.

Carlos Lessa observes that the second NDP was an authoritarian strategy that, in the depths of the cyclical reversion, was based on the premise that “the state is the subject, society and the economy are the object.”¹² The euphoria of the “miracle” and technobureaucratic voluntarism joined together to accomplish the project “*Brasil potência.*” Brazil was to pay the price for this optimism at the beginning of the 1980s, when other more serious errors came together with those already made. Yet it should be pointed out that the basic strategy of the second NDP—giving priority to basic inputs and the capital goods industry—was correct. Furthermore, the use of state enterprises to produce the most important inputs—oil, electrical energy, steel—and giving local consumer goods industries special orders for machinery and equipment were also appropriate strategies. The plan’s most serious mistake was that it did not take into consideration the cyclical nature of capitalism. We did not recognize that the expansion cycle would necessarily exhaust itself in Brazil and throughout the capitalist system, and that our fundamental problem was now to bring our ambitions down to size and adapt to the crisis (made even more serious by the energy problem) rather than simply ignore it.

Economic Policy, 1974–1979

The economic policy developed in Brazil starting in 1974 had its high points and low points, and serious errors were made in an attempt to carry out a grandiose development project in the middle of a cyclical reversion and finance it with foreign debts that finally got out of control. Yet until the second half of 1979, as long as Mário Henrique Simonsen was in command of the national economy, if Brazil did not succeed in managing the economy through a firm administrative control over prices and economic aggregates, at least no large errors were made in terms of the economy as a whole. Most importantly, none of the orthodox monetarist policies that proved so disastrous in Chile, and principally in Argentina, were adopted.¹³ Though the monetary authorities adopted a basically neoclassic and monetarist discourse in theory, their practice was more moderate, combining basically Keynesian monetary and fiscal instruments of macroeconomic policy with instruments of administrative control such as price controls through the Interministerial Price Council (CIP), control of exchange rates through the minidevaluation policy (which had its successful start in 1967), control over interest and rents through indexation, and wage control. The discourse was monetarist,

but the practice was a mixture of monetarism, Keynesianism, and price administration.

This eclectic practice was the fruit of societal pressures and counterpressures, particularly from the industrial bourgeoisie, which began to become powerful in the 1930s, and after the 1950s definitively became the dominant class in Brazil. From this position, it felt it could demand an economic policy that would serve its interests. Obviously this policy could not be limited to pure neoclassic orthodoxy.

Generally what we had between 1974 and 1979 was a Keynesian stop and go policy, which tried on one hand to adapt to the two great oil crises (1973 and 1979) through inflation and increased foreign loans, and on the other, to meet society's demands for accumulation (and consumption). Although this policy was not ideal, it was far superior to the orthodox monetarism that deindustrialized Chile and Argentina.

The Geisel government administered the economy by means of this stop and go process. In 1974 monetary restrictions began that were later abandoned in 1975. Because of the six- to nine-month lag between the monetary contraction and its effect on the GDP, the latter's growth rate fell rapidly to 5.7 percent in 1975. But in 1976, it again increased explosively, by 9 percent. In 1977, the GDP contracted again, this time to a 4.7 percent growth rate, because of a contraction in the means of payment in real terms of 6.2 percent in the previous year. Yet in 1978 and 1979, the GDP again grew by 6.0 percent and 6.4 percent respectively.

Given increasing inflationary pressures caused by the second oil crisis, and the finance crisis characterized by increased international interest rates, 1979 should have been a year of economic contraction. But when Simonsen left the government in August of 1979, he did not have time to carry out the new stop he had planned. Rather than his medium-term policies, which though they did not resolve the country's problems, at least did not dramatically worsen them, we would have a new economic policy administered by Antônio Delfim Netto.

A Contradictory Policy

Brazil's economic policy from 1974 to 1979 was marked by a basic contradiction. On the one hand, the president's second NDP made great efforts at investment—efforts that in the final analysis were anticyclical, led the country into debt, and produced inflationary pressures. On the other hand, the Treasury and Central Bank sought to restrain these processes by restrictive but short-lived policies. As Dércio Munhoz¹⁴ points out, there was an ongoing contradiction in the bosom of the government itself, which supported a developmentalist, interventionary policy on one hand and a conservative monetarist policy on the other.

This monetarist position, however, was never radical and at any rate never entirely prevailed. This contradictory economic policy generated serious distortions: increased real interest rates, increased financial speculation, and the increased appropriation of economic surplus by the expanding financial sector.

Domestic interest rates bore two kinds of contradictory pressures. On one hand, price indexation, which was lower than the rate of inflation, brought about a decrease in interest rates. On the other hand, the government placed restrictions on the supply of currency and sought to cover its deficits without provoking further inflation by selling bonds. This policy resulted in higher domestic interest rates.

The most serious consequence of the domestic debt, which, in real terms, increased 105 percent from 1970 to 1980, was that it facilitated extraordinary financial speculation, raising interest rates. Open market transactions, stimulated by a system that guaranteed the full liquidity of private sector bonds, accelerated the velocity of money and were an additional source of inflationary pressure. This process was finally corrected to some extent in 1979 when a series of regulatory measures were implemented by the Central Bank. These measures (through the creation of the Liquidation and Custody System, a clearing system for trading in public securities) made speculation in private bonds more difficult. They did not, however, prohibit a significant profit increase for the financial system, as well as an increase in its share of the national income.

Although the foreign debt increased heavily in this period, Brazilian foreign credit was good because the terms of payment were maintained at a reasonable level, as were the reserves.

It should be observed that, contrary to the general belief, the cruzeiro was deliberately devalued throughout this period. As Table 8.5 shows, the cruzeiro was devalued by 13 percent between 1974 and 1978. This policy was aimed toward making our manufactured exports more competitive, as well as facilitating the reduction of export subsidies. The devaluation resulted in slight inflationary pressures and eventually stimulated the deterioration of the terms of trade. Yet in principle this policy was correct; we exported a great deal more, especially manufactured goods, during this period.

However, despite the increasing devaluation of the cruzeiro, the government was unable to take away export subsidies when faced with the deterioration of our terms of trade (as a result of the international crisis as well as the second oil crisis in 1979). That is why the government formulated its late 1978 plan for an additional 25 percent devaluation of the cruzeiro that would be spread out over four years. This additional devaluation would be accomplished by accelerating the minidevaluations

and would make it possible to eliminate all export subsidies. Nevertheless, many observers interpreted this plan as a sign that the cruzeiro was being valorized, when in fact just the opposite was taking place. The mistaken December 1979 maxidevaluation confirmed this wrong impression. In fact, if we take the year 1970 as our parity base for the cruzeiro, in 1978 the cruzeiro had been devalued by 24.4 percent. With the maxidevaluation, this percentage jumped to 43.2 percent in the middle of 1980.

Expansion and Recession: 1980 and 1981

In the beginning of 1979, when President Figueiredo began his mandate and Mário Henrique Simonsen moved from the Treasury (where he had been since 1974) to the Planning Ministry, the Brazilian economy showed serious signs of crisis, some of which were being diagnosed by the government at the time:

- inflation had reached dangerous proportions (77.2 percent in 1979);
- the foreign debt was out of control, exacerbated by the oil crisis and increased international interest rates;
- the federal budget, burdened by growing compensatory subsidies and the state enterprises' cash deficit, made up 5.3 percent of the GDP in 1978 and 8.1 percent in 1979;¹⁵
- the cruzeiro was excessively valued;
- some of the state enterprises' prices (especially the public service enterprises) were artificially low.

In order to deal with this situation, Simonsen proposed (*a*) accelerating the minidevaluations; (*b*) reducing state expenditures and subsidies; (*c*) consolidating the fiscal and monetary budgets; and (*d*) provoking a new recession that would reduce imports and keep the inflation rate under control.

The entrepreneurs were dissatisfied with their falling profits. They put pressure on the government to name Antônio Delfim Netto, administrator of the "miracle," as planning minister, and forced Simonsen to resign.

Delfim Netto took up his post in August of 1979, imagining that he could repeat his success of 1967. He developed an expansionist strategy, correctly based on the premise that the cost push, or the administrative component, was what continued to be high. By expanding the economy at the same time as it administered prices, the government could induce

enterprises to lower their profit margins (profit over sales), reducing inflationary pressure without decreasing their rates of profit (profit over capital) because sales would increase.

But the situation in 1979 was far different from the one in 1967. Whereas in 1967 the state budget was balanced and the foreign debt reduced, the picture in 1979 was exactly the opposite. In 1967, we were coming out of a cyclical crisis naturally, whereas in 1979 we were in the depths of crisis. In 1967, the neutralization of workers facilitated a wage squeeze policy; in 1979 important union movements were being consolidated in São Bernardo do Campo. In fact, the only common factor between these two periods was the cost component of inflation.

On the basis of this erroneous evaluation, several serious mistakes were made in economic policy. In the second half of 1979, the state enterprises carried out what was called "corrective inflation," raising their prices, which in turn pushed other prices upward. Contrary to the government's expectations, these inflationary effects were not limited only to 1979 but extended well into 1980.

In December 1979, the cruzeiro was devalued by 30 percent. This maxidevaluation created insecurity among those who had taken foreign loans, and caused the state enterprises serious losses. It also had strong inflationary effects. After this measure, the government preestablished the indexation of the exchange rate, as well as the economy's general indexation, at levels much lower than that of inflation. It sought to "reduce the enterprises' inflationary expectations" with this measure, thus placing price increases under control. This monetarist concept of inflation as based on expectations, like that adopted in Argentina, was obviously not appropriate to the situation. Whereas inflation increased 120 percent, the price and exchange indexation remained less than 60 percent.

As a consequence, the real interest rate of both domestic and foreign loans fell rapidly. This fall did not respect the law of value and caused immediate distortionary effects. There were no longer incentives for individual savings, and speculation and the black market became an integral part of the finance market. Inventories were increased, the economy entered into euphoria, the GDP increased by 8 percent, imports increased beyond measure, the trade deficit grew to \$3.4 billion, and the gross foreign debt reached \$53.8 billion by the end of the year.

In the second half of 1980, this irresponsibility on the government's part was curbed by the international banks, which suspended the automatic roll-over of Brazil's debt. After a series of unsuccessful trips abroad, and because of the international banks' increasing pressure for a stabilization plan, Minister Delfim Netto announced drastic policy changes in November 1980. The money supply, contracted since August

of that year, was even further reduced, investments in the state enterprises were cut, interest rates and commodity prices were liberated, and the preestablishment of price and exchange indexation were lifted. The only policy elements that did not comply with the demands of the International Monetary Fund (IMF) were the maintenance of the 1979 wage law and continued subsidies to export manufacturers and agricultural producers; the government lacked political conditions to retract these measures.

Severe monetary contraction, as well as a dramatic increase in interest rates, paralyzed investments. Domestic interest had been artificially controlled by an underestimated preestablishment of price indexing and by the official fixation of bankers' interest rates. When these measures were lifted, at a point when real international interest rates had risen to almost 10 percent and the money supply had been curtailed, domestic interest rates rose rapidly to an average of 30 percent in real terms.

Studies show that minor fluctuations in interest rates have little effect on investments when rates of profit are high.¹⁶ But when real interest reaches such a high level, and especially in a moment of cyclical slowdown, investment becomes unviable and is paralyzed. This is what took place in 1981 when the slowdown finally became a recession—the most severe in this country's industrial history. For the first time since 1930, the GDP's growth rate was negative. The industrial employment level fell 10.3 percent and industrial output decreased 9.9 percent. On the other hand, inflation also dropped, though only moderately—from 110 percent in 1980 to 95.1 percent in 1981. The trade account finally showed a surplus because of the reduction of imports provoked by recession. The international banks renewed Brazil's credit.

The effects of this recessionary and monetarist economic policy were quite modest, especially on inflation, and show a marked contrast with those of the 1964–1965 period, when a much more moderate recession (in 1965, the GDP still grew 2.7 percent whereas industrial output fell 4.7 percent) resulted in a significant drop in the inflation rate—from 91.8 percent in 1964 to 34.5 percent in 1965.

The fact that this later inflation was so resistant to recession can be explained by the economy's high level of indexation. In 1965, only wages were indexed to some extent, and even these were later reduced greatly. Other prices were only beginning to be indexed. In 1981 the Brazilian economy was indexed on a wide scale. Consequently, all cost increases were passed on to wages, interest, the exchange rate, rent, and finally commodity prices. Thus it became much more difficult to lower the established level of inflation.

In reality, the main objective of the recessionary policy was not to reduce inflation, but rather to balance the trade account and appease the international financial system.¹⁷ This policy achieved some reduction

in inflation only because the competitive sectors of the economy were unable to pass on all their cost increases. Yet even these paltry results, which were obtained by distorting relative prices (with the competitive sector suffering losses), proved to be of short duration. When the economy began to recover in 1982, structural inflation began to grow again. Exports dropped, however, because of the international recession, reducing the trade surplus even more. Despite the submissiveness of our economic policy, the international banks again began to threaten to cut off our loans.

In other words, the recession didn't resolve a thing. It only deepened the crisis, clearly showing that the government was paralyzed, unable to formulate a viable economic policy that could lead the country out of crisis.¹⁸ Because of their impersonal and indiscriminate character, monetary restriction and recession were merely the simplest solution; it is clear that they were not the most efficient one in view of the oligopolized and indexed nature of the Brazilian economy. In fact, it became that much more obvious that an economy that is highly indexed (and consequently able to neutralize many of the distortionary distributive effects of inflation) must adopt more moderate and gradual policies to control inflation. In fact, its only real alternative is to live with inflation, which, in the final analysis, is relatively neutralized.

The Distributive Crisis

The slowdown that began in 1974 was not only a financial crisis involving foreign and domestic debt and inflation, but also, and more importantly, a distributive crisis. This crisis originated on the international level. When oil prices rose in 1973 and again in 1979, the terms of trade deteriorated (see Table 8.5), creating an immediate real and potential advantage for oil-producing countries and a disadvantage for Brazil. But the fundamental cause of this distributive crisis was the exhaustion of the expansive cycle and the beginning of the contraction or slowdown phase. During the 1973–1974 cyclical reversion, when the country's terms of trade deteriorated, there was also an immediate reduction of what one might call our "potential output." Nevertheless, real income was maintained on one hand by the state's inflationary investments (the second NDP), and on the other by foreign loans. At that point effective income was greater than potential income. Another way to describe this phenomenon would be to say that effective income, that is, the sum of wages and profits, came to be greater than output, and the disequilibrium was "resolved" by compensatory inflation and foreign loans.

TABLE 8.7
Wages and Productivity

	(1)	(2)	(3)
Year	Real minimum wage index	Real average wage index	Productivity index (GDP per capita)
70	100.0	100.0	100.0
71	95.7	103.2	109.3
72	93.9	107.4	118.5
73	86.1	112.7	131.8
74	79.0	112.7	140.8
75	82.5	121.5	145.1
76	82.0	127.2	155.3
77	85.4	135.8	159.8
78	88.0	147.2	163.4
79	90.4	154.0	170.1
80	93.4	149.4	179.0
81	95.5	161.3	171.4

Source: (1), (2) The minimum wage index includes the thirteenth month's wage that was instituted in 1962. The average real wage corresponds to the average wage of São Paulo unions until 1974. (Source: Bacha and Taylor, Models of Growth and Distribution for Brazil, Washington, World Bank, 1980). Starting in 1975, the source is the FIBGE (Fundação Instituto Brasileiro de Geografia e Estatística) for wages in the manufacturing industry. All indexes were deflated by the DIEESE's (Departamento de Estatística e Estudos Socioeconomicos) cost of living increase.

(3) National Accounts, FGV, Conjuntura Econômica, Dec. 1981. The data for 1981 is an estimate.

This disequilibrium necessarily implies a distributive conflict. Given its large scale, in order to resolve this problem, it would be necessary to reduce wages or salaries or surplus value in some way. The concomitant reduction of all these income components would result in a classic recession. The isolated reduction of wages or salaries, interest or rent dividends, or the corporate profit of various sectors is an alternative solution, but would require resolving the distributive crisis in favor of or against particular classes or sectors of the economy.

The classic solution that had been used in 1964 and 1965—reducing wages—had become politically inviable. The opposition's severe critique of the concentration of income during the 1970s and the government's defeat in the 1974 Senate elections made a wage squeeze impossible. In fact at that point, the government made changes in its wage policy,

TABLE 8.8
 Distribution of Income among the Economically
 Active Population
 (percentage)

	1960	1970	1972	1976	1980
poorest 20%	3.9	3.4	2.2	3.2	2.8
poorest 50%	17.4	14.9	11.3	13.5	12.6
richest 10%	39.6	46.7	52.6	50.4	50.9
richest 5%	28.3	34.1	39.8	37.9	37.9
richest 1%	11.9	14.7	19.1	17.4	16.9

Source: Data from the 1960, 1970, and 1980 Demographic Census and the PNAD; data for 1972 and 1976 from the IBGE.

increasing the acquisitive power of the real minimum and average wages, as Table 8.7 shows. And in 1979, as a result of strong union activity, a new wage law was enacted. This law provided for cost of living increases twice a year rather than annually, and for a 10 percent increase above the cost of living for those earning three times the minimum wage or less. Those earning lower wages who kept their jobs got real wage increases that were systematically higher than the increase in productivity.

As a consequence of the first change in wage policies in November 1974, when all workers received a 10 percent bonus and the wage squeeze policy was abandoned, two things happened. At the same time that the cyclical slowdown provoked a decrease in the growth rate of the economy's global productivity (that is, GDP per capita), there was also what I have called a "relative reduction of surplus," or a certain deconcentration of income.¹⁹ Reduced rates of profit, as can be observed in Table 8.6, resulted not only from the cyclical slowdown but also from the increase in real wages that began in 1975. Between 1974 and 1979, while productivity (GDP per inhabitant) increased by 20.8 percent, average real salaries increased by 36.6 percent. Although the data on real minimum wages is always questionable, the difference is nevertheless significant.

In a study made in 1976, I confirmed that the concentration of income was highest in Brazil in 1974. Although the National Household Survey (PNAD) was not made in that year, the data in Table 8.8, which shows 1972 as the year with the highest concentration, suggests that this analysis is correct. This process continued and became more pronounced in 1973 and 1974. However, a moderate deconcentration process began in 1975.

Obviously, this slight deconcentration of income was the fruit of strong distributive conflict. Although such conflict is an integral part

of any economic system, it became extremely pronounced during the slowdown and crisis that lasted from 1974 to 1982. Capitalists and technobureaucrats resisted any relative reduction of their share of income that resulted in inflation and debt. With the enactment of the 1979 wage law, the distributive conflict tended to be resolved against the interests of the middle class, who receive salaries roughly equivalent to 20 times the minimum wage.

The distributive conflict also took place on the level of the various corporate sectors and departments. The sector that benefited particularly during this slowdown was the finance sector. A particularly perverse characteristic of contemporary monopoly state capitalism is that it tends to benefit finance capital in moments of crisis. The decision to fight inflation within the framework of a relatively orthodox economic policy means stimulating increased interest rates. On the other hand, domestic and foreign loans lead banks to increase the volume of their loans in relation to their capital. Finally, inflation itself encourages bank profits to the extent that their cash deposits don't pay interest.

One hears a lot about the emergence and dominance of finance capital in Brazil. Yet in reality, if we define finance capital as the merger of industrial capital with banking capital under the latter's control, this phenomenon never existed in Brazil. Nevertheless, the financial system has grown impressively. Financial enterprises show high profits based on high interest rates, speculation, and privileged treatment by the government. Consequently, the finance system's share in the national income grew 5.7 percent in 1970 and 9.8 percent in 1979, with evident losses for other productive sectors.

The favored productive department between 1974 and 1976 was Department I, producer of capital goods and basic inputs, which was heavily subsidized. Yet though Department III, producer of durable consumer goods, showed a significant decrease in its growth rate (23.65 percent between 1967 and 1973, and only 9.3 percent between 1973 and 1980), as Table 8.2 shows, it was nevertheless the department with the highest growth rate during the slowdown.

In the middle of 1982, with inflation again growing and exports declining for the first time in many years, the Brazilian economy finds itself in the same shape as the central capitalist economy—in deep crisis, perhaps the worst of its industrial history. The fundamental obstacle to Brazil's development is foreign debt, and the international banks' constant threats to suspend the roll-over of our debts if we are unable to balance our trade accounts and maintain reasonable control over inflation.

These two factors are both consequences and causes of cyclical slowdown. It might be said that the economy's decline in the last half of the 1970s is a transitional crisis. The industrialized underdeveloped model, which took the place of the import-substitution model, has reached its end. After this crisis, we may expect that Brazil will define a new pattern of accumulation.