

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

Luiz Carlos Bresser-Pereira  
Westview Press, 1984

10

**CONCLUSION**  
**Fifty Years of  
Development and Crisis**

---

More than fifty years have passed since Brazil initiated its industrial revolution. During this period Brazil has undergone profound changes. The first thirty years were marked by a great and continuous development. This more specifically was the time of the first phase of the Brazilian industrial revolution, which transformed the country from an agrarian mercantile economy into an industrial capitalist economy. Once the foundations of an integrated industrial capitalist economy were established in the 1950s, the country's economic cycles became endogenous, with periods of expansion followed by periods of slowdown and recession.

In these fifty years of intense capital accumulation and the incorporation of technical progress, Brazil underwent not only economic changes, but also social, political, and cultural transformations. Not only did the productive structures radically change, along with the way Brazil handled its economic relations with the rest of the world, but the relations of production were also modified. New classes and class fractions arose: the industrial bourgeoisie, the urban proletariat, and the new salaried or technobureaucratic middle class. There was also room for new ideologies: Bourgeois ideology was modernized and became hegemonic; technobureaucratic ideology, efficientist and rationalizing, increased in importance; and democratic socialist ideas, though still in the minority, became more authentic, rather than merely repeating the slogans of various fractions of the international left. In general, to the extent that the country developed, its political and economic decision-making centers evolved within its own boundaries; Brazilian culture was no longer merely a transplantation of imported ideas and ideologies.

In economic terms, this period was characterized by import-substitution industrialization, with the import coefficient lowering systemat-

ically. This import-substitution model encompasses the first thirty years and corresponds in political terms to the populist pact. Beginning in the fifties, however, a new development model emerged: the model of industrialized underdevelopment, based on the concentration of income and the explosive growth of Department III, producer of durable consumer goods. In political terms, this period was expressed by the technobureaucratic capitalist authoritarian pact that received concrete expression almost ten years later in 1964. The present economic and political crisis, which began in 1974, is probably a transitional crisis. It is related not only to a new pattern of accumulation that might be called the mature industrialized underdevelopment model, but also to a new democratic political pact.

### **The Total Crisis of 1983**

From the moment I wrote Chapters 8 and 9 of this book (mid-1982) until the present (July 1983) the Brazilian economic and political systems have fallen further into crisis, a crisis so serious that it could be called global. Besides encompassing the economic and political aspects of society, this crisis is characterized by the fact that the social actors—the several fractions of the bourgeoisie, of the technobureaucracy, and of the working class—do not have any clear ideas or projects about how to overcome it. A society that has been generally defined by optimism and high standards of economic achievement is now dominated by pessimism and lack of perspective.

In the economic sector, the prevision that the country would have to renegotiate its external debt was confirmed. After the Mexican moratorium in September 1982, the confidence of the international banks in relation to Brazil disappeared rapidly. The Brazilian external reserves, around 3 billion dollars in September (officially more than 6 billion, because the official figure included unreceivable credits) declined to zero in two months.

In December negotiations with the IMF started, despite all the Brazilian government's affirmations that it would not negotiate with this institution, given its reputation in Brazil. Since the fifties, when President Juscelino Kubitschek refused to negotiate with the IMF, it has been considered in Brazil a representative of the international financial system, incapable of understanding the characteristics of underdeveloped countries. Indeed, its adjustment or stabilization plans, marked by severe fiscal and monetary policies, tending to induce recession, are not able to solve the problem of inflation and current account deficits, or they solve this problem at a social and economic cost that is not proportionate to the results achieved.

At the end of 1982, however, Brazil had two alternatives: to declare a complete moratorium or to declare a moratorium of the principal and continue to pay the current interest and dividends while negotiating with the IMF and the main creditors. The second alternative was chosen by the conservative Brazilian government, and in January Brazil signed its letter of intent to the IMF. It promised 6 billion dollars of trade surplus, a cut in the public deficit to half its presumed size, and an inflation rate of 90 percent. According to IMF estimates, this adjustment process would represent a negative rate of growth of GDP for Brazil in 1983 of 3.5 percent. It is important to note that in 1982 the GDP grew 1.4 percent, and industry grew 1.2 percent. The trade surplus in 1982 was only 778 million dollars, and inflation (IGP) at the end of the year was 99.7 percent, against an increase in the money supply of only 69.7 percent.

In these circumstances, the trade surplus of 6 billion dollars was very large, demanding a strong recession in order to cut imports. The target of cutting the public deficit in half was impossible to achieve, especially because, using an unacceptable methodology, the IMF includes the indexation of the government stock of public debt in the public deficit. The target chosen for the inflation rate was optimistic but eventually viable.

In exchange for the targets, Brazil would receive new loans from the IMF and the main international banks (around 7 billion dollars, if we include the additional interbank financing asked). The assumption was that this money would be enough to pay the interest or the deficit in current accounts in 1983, because the principal was already under moratorium.

In February 1983 the country was surprised by a new 30 percent maxidevaluation of the cruzeiro, raising strong indignation in the whole society. In April it was clear that the 6 billion dollars of trade surplus would probably be achieved, thanks to a very strong recession that curtailed imports, but that the target related to the public deficit was unattainable. As to inflation, the maxidevaluation and other corrective price measures recommended by the IMF resulted in an increase in its level from 100 percent at the beginning of the year to around 180 percent (annualizing the inflation rates of April, May, and June). On the other hand, the new money asked from the international banks in December 1982 was not enough, for various reasons (optimistic estimate of foreign direct investments in Brazil, optimistic estimate of interbank financing for Brazilian bank agencies outside Brazil), and Brazil needed 4 billion dollars more to close its balance of payments in 1983.

In consequence—as the option for a complete moratorium was not adopted—a new agreement was necessary with the IMF, an agreement

that demanded additional austerity measures. The facts that the recession was very strong, that unemployment and bankruptcies were increasing, that imports were decreasing, and that the 6 billion dollar trade surplus target was being met did not impress the IMF. As inflation (which in Brazil is autonomous and cost-pushed) was increasing and the public deficit, in nominal terms, was not decreasing, the IMF demanded a stronger adjustment process.

Several measures were put in practice in June and July 1983. The most relevant was the decision to cut real wages—a policy that had not been followed since 1974. The decision was to index wages and salaries to 80 percent of the national index of consumer prices during the next two years. This measure will represent a real wage cut of around 30 percent in two years; the exact figure will depend on the future rate of inflation.

The economic prospect for the end of 1983 is for an inflation of 180 percent (the IMF admits 138 percent), a GDP decrease of 5 percent, and a trade surplus of more than 6 billion dollars. It will be the third year of recession in Brazil. The Brazilian industrial system is in serious danger. The level of Brazilian industrial production in mid-1983 was the same as in 1979. Idle capacity was around 30 percent. And very few people in Brazil believed that the policies demanded by the IMF and followed by the government would solve Brazil's economic problems. On the contrary, the prospect is that they will worsen the situation. The extremely large Brazilian external debt (83 billion dollars in December 1982) is a structural problem that definitely cannot be solved by means of short-term orthodox policies. And the autonomous cost-pushed inflation or stagflation that prevails in Brazil cannot be controlled by this kind of policy, either. Or better: It can, but at a cost clearly disproportionate to the results eventually achieved.

In political terms, as I had also expected, the 15 November 1982 general elections were a significant victory for the opposition parties, which obtained close to 60 percent of the votes. This represents almost 10 million votes out of a total of 54 million voters. The opposition was victorious in 10 out of the 22 states of the union, including São Paulo, Rio de Janeiro, and Minas Gerais. The PDS still maintains its base in the Northeast, where speculative mercantile capital continues to dominate in the small cities and the political system is marked by *coronelismo*. Despite the opposition's significant electoral victory, the PDS, through a series of electoral maneuvers, maintains its majority in the electoral college, which will choose a new president at the beginning of 1985. The lack of legitimacy and representation manifested in this way of electing the president stands out in sharp relief against the present elections and will deepen the political crisis in the next few

years. Brazilian society has made it clear that it wants democracy, yet the regime continues to be fundamentally authoritarian. Its political strategy is based on the official process of *abertura*, a strategy that the elections have shown cannot be confused with redemocratization.

Whether Brazil will overcome this crisis depends on several variables. Economically, our recovery depends on one hand on the recuperation of the world economy, and on the other, on the leading class's capacity to formulate an economic policy geared to Brazil's characteristics and necessities. The country has already attained a relatively self-sustained development, but the threat of deindustrialization such as Argentina and Chile have experienced should not be forgotten. A strong bourgeoisie, a broad technobureaucratic middle class, and an industrial working class that has begun to organize, along with an economically strong state, are all reassurances that we will not be victims of a similar tragedy, but there are no certainties in this respect.

In reality, the solution to the economic crisis will depend upon the formation of a new political pact that would give legitimacy to the new government it would create. The present government, which is the fruit of an outdated authoritarian political pact, has lost its legitimacy and is economically paralyzed. Its economic policy is merely a reflection of the pressures and counterpressures of the domestic and international economic system. Only a new government representing a new legitimacy, probably based on a new democratic alliance among the industrial bourgeoisie, the technobureaucratic middle class, and the industrial working class, will make a new direction for economic policy possible. Such a new direction would not be a new version of populism, because class struggle would be maintained, expressed in permanent social and political revindications. What, then, would this social pact be that would permit Brazil to function as a modern and diversified democratic society?

### **Some Half-Truths Concerning the Social Formation**

The definition of a new democratic social pact and the formulation of a new economic policy capable of leading the nation to a new stage of economic and social development depend on a correct analysis of Brazil's social and economic formation. It is therefore necessary to move beyond a series of half-truths and fallacies that, because of ideological prejudices or the inability to take new facts into account, give an incorrect picture of the extraordinarily dynamic society that is Brazil. By way of a critical analysis of these ideas, I will eventually come to a general vision of the current Brazilian social formation. I will deal here only with the half-truths that prevail among the democratic left, which I

consider to be my own side, passing over for the moment the erroneous notions of the radical left as well as the moderate and radical right.

1. "Brazil is an underdeveloped country." This is more a half-truth than a fallacy. This classification might have fit the Brazil of the 1940s and 1950s, but in the 1980s, after fifty years of industrialization, it is appropriate only with many qualifications.

If underdevelopment is defined in terms of a low *per capita* income in relation to other countries, then Brazil is underdeveloped or at an intermediate stage of underdevelopment. Yet this is clearly not the most adequate definition. If underdevelopment consists in the dual nature of a society, then it is first necessary to make a qualification: Brazil does not demonstrate the classic duality between a modern capitalist society and a traditional precapitalist society; rather, it is characterized by the duality between industrial, technobureaucratic, state-controlled and oligopolized capitalism and mercantile, *latifundiário*, speculative capitalism. If underdevelopment is synonymous with poverty, some regions of Brazil are underdeveloped whereas others are heavily developed. For example, the state of São Paulo corresponds for all practical purposes to a developed country. If underdevelopment is defined as an economy's inability to integrate a large part of its population into the productive system and the modern capitalist market, leading to the creation of a mass of urban and rural subproletariats—underemployed, undernourished, politically and economically marginalized people—then Brazil is an underdeveloped country. However, if underdevelopment is defined in terms of the primary export nature of the economy, centered around agriculture and mining, then Brazil certainly is not underdeveloped. Brazil has a strong industrial economy, with more than two-thirds of its exports made up of industrial products (more than half of them manufactured goods). If underdevelopment is technological and cultural dependence, then Brazil is still an underdeveloped country, but is rapidly developing.

Perhaps the best way to characterize Brazil's stage of development is to use the term "industrialized underdevelopment." Or one could also use the phrase "new industrialized country." I prefer "industrialized underdevelopment" because it clearly indicates the contradictions and indefinities of the present stage of capital accumulation and incorporation of technological progress in the Brazilian economy.

2. "Brazil is a peripheral country." This is a variation on the previous half-truth, with emphasis on Brazil's dependence upon the United States, Europe, and Japan as decision-making centers for its economic, political, and cultural policy.

Yet if one looks at the Brazilian industrial system's degree of technological sophistication; the level of our best universities in physical

and mathematical sciences, engineering, and social sciences; the range and diversity of the market for the arts in cities like São Paulo and Rio de Janeiro; then one begins to see that Brazil is not so far from the center. It no longer merely absorbs foreign culture and reproduces central consumer patterns, but has begun to create its own critical and technical science.

During the primary export period, Brazilian culture was merely the ornamental transplant of European culture. Because this culture was not linked to the productive process, but rather related only to the modernization of a small elite's consumption, it was a drawing-room culture, unable to evaluate Brazil's own problems. This situation began to change radically beginning in the 1930s, and especially in the 1950s, when a new generation of intellectuals analyzed Brazil's situation through a critical application of concepts from European culture. However, at this point, Brazilian thought was geared toward Brazilian problems and culture. More recently, our thinking has become more universalized, so that the problems of contemporary society as a whole have become an object of systematic analysis. We are only at the beginning of this process, yet it is clear that the universalization of Brazilian thought (and not merely its Latin Americanization) is a concrete sign that Brazil is becoming less and less peripheral.

Brazil ranks as number eight in terms of gross domestic product within the capitalist system. This implies an immense domestic market and an increasing international presence. Given the country's low import coefficient, Brazil's commercial presence is still small. However, its political presence has begun to manifest itself, among other ways in a relatively independent foreign policy.

3. "The multinational enterprises that exploit Brazil are the main cause of its underdevelopment." This is clearly false, based on a nationalism that ends up diverting workers' and the left's attention from their main concern: class struggle. A good deal of the so-called dependence theory is oriented toward clearing up this error, which makes no distinction between the old primary export imperialism and the new industrializing developmentalist imperialism that emerged with multinational industrial enterprises in the 1950s. Yet perhaps "dependence" is not the best name for this theory, because few have a clear understanding of it.

Multinational enterprises have provoked serious distortions in the distribution of income to the extent that they facilitate the reproduction of the central countries' consumer patterns. Moreover, the transfer of technology obstructs the creation of our own technology. Finally, it is clear that multinational enterprises transfer a part of their surplus outside the country. Still, they should not be blamed for Brazil's underdevel-

opment. In the final analysis, their profits depend directly upon the country's development and the growth of its internal market.

For workers there is no essential difference between national and multinational enterprises. In certain respects, one has to admit that the multinationals are more favorable to workers: They pay higher wages and offer better working conditions. And in the process of class struggle they are often more flexible than local enterprises that have not yet learned to negotiate with workers without the state's support.

At any rate, multinational enterprises are a fundamental and permanent reality in the Brazilian social formation. They are an integral part of the local economic system and could at some future point be absorbed. In this context, nationalism would signify controlling them, limiting their areas of action, and encouraging them to export and to create technology within the country. This does not mean antagonizing them, nor blaming them for all the nation's ills.

4. "The bourgeoisie is a dominant and authoritarian class, incapable of assuming the country's political and economic leadership and of formulating a development project." This half-truth is related to the disillusionment of almost all the left with ideas concerning the "national bourgeoisie" that dominated Brazil during the populist period, and especially during the 1950s. It is also a way for the bourgeoisie to hide or disguise its domination, posturing as politically weak. The authoritarian nature of the Brazilian bourgeoisie can be historically confirmed by the fact that very rarely until now has it been effectively committed to democratic ideals. Yet when this statement comes from radical sectors of the left, who see the Brazilian and Latin American bourgeoisie as "intrinsicly" authoritarian, it loses its objectivity and becomes ideological dogmatism.

Really there is no basis for speaking of a "national bourgeoisie," given the alliance of the Brazilian bourgeoisie with multinational capitalism. Yet this alliance does not mean that the Brazilian bourgeoisie is incapable of formulating its own political project, nor that it is intrinsically authoritarian. In fact the partial redemocratization that Brazil has been experiencing since the mid-1970s is to some extent the consequence of the bourgeoisie's project for political hegemony. This class has already attained an ideological hegemony in Brazil, imposing its individualist and liberal values upon the rest of society, and now seeks to shake off the military's authoritarian tutelage and assume more direct political control. It will probably not succeed in moving from dominance to leadership, because other classes are not ready to accept such a linear solution.

The bourgeoisie has always been a conservative class, marked by its authoritarianism and dependence upon the state. It is shortsighted, has



a limited capacity to understand Brazilian social problems, and is constantly haunted by the threat of class struggle. Yet we should not transform historical and consequently contingent factors into intrinsic ones, affirming that the bourgeoisie is “essentially” authoritarian, conservative, and politically incompetent. The great capital accumulation that has taken place over the last fifty years has resulted in profound structural transformations within this class. One of these is the fact that industrial capital has gained a definitive hegemony over agrarian-mercantile capital. Today the Brazilian bourgeoisie is a new, powerful social class whose force should not be underestimated.

5. “Technobureaucrats are merely consultants to the bourgeoisie.” This is another half-truth that does not consider the immense growth in the numbers and power of the salaried or technobureaucratic middle class, both in large private bureaucratic organizations and principally in the large civil and military state bureaucratic organization. Although the technobureaucracy clearly does serve as consultant to the bourgeoisie insofar as the latter is the dominant class, this technobureaucracy has its own specific political and economic interests and objectives, to the extent that it controls the relations of production and is based in its own ideology. One cannot reach a clear understanding of the military regime established in 1964 without a full appreciation of this fact.

6. “Inflation is the Brazilian economy’s biggest problem and reveals the government’s incompetence.” There is no doubt concerning the government’s incompetence, paralyzed as it is when faced by cyclical crisis. Yet inflation is definitely more a symptom of this crisis than the problem itself. Brazil is developing despite high rates of inflation. Its effects in terms of the concentration of income and the distortion of capital accumulation are relatively neutralized by the generalized price-indexing of the economy.

Inflation becomes a significant problem for the Brazilian economy only when the government, influenced by a monetarist vision and unable to perceive the difference between its own economy and that of the large central countries (which do not index), insists upon adopting recessionary, monetarist economic policies.

7. “Inflation is the result of a conspiracy by large oligopolist enterprises allied with the state in order to appropriate surplus by increasing subsidies and the public deficit.” Although this idea is not entirely false, it could be more accurately described as another half-truth. Clearly, inflation has served the oligopolist sectors of the economy, increasing their share of revenue by increasing their profit margins. It has also been useful to banks and *rentiers* because the government tries to fight inflation by increasing interest rates.

Yet once a certain level of inflation has been reached, it is kept down by indexation and the oligopolization of the economy. As a result, the government has no other alternative but to go into deficit via subsidies and investments in state enterprises, and then to increase the nominal quantity of currency. If the government did not do this, or did it only on a very limited basis according to the monetarist scheme adopted at the end of 1980, the economy would undergo a liquidity crisis and plunge into deep recession.

8. "The solution to Brazil's economic problems is to abandon the export model and turn our attention to the domestic market." In the first place, Brazil never really adopted a true "export model." Except for some rare moments between 1967 and 1974, Brazil only substituted imports and reduced its import coefficient (the relation between imported products and the GDP). Currently our import ratio is less than 5 percent, excluding oil imports.

The best way for Brazil to increase its domestic market is to grow. This is possible only if Brazil manages a way out of the enormous imbalance of its foreign accounts by increasing exports, because its low import ratio makes basing its economic policy on import substitution impracticable. This is why it is essential that Brazil develop an industrial and technological policy geared toward exports. The development of a domestic market does not need a specific economic policy. A macro-economic policy that maintains aggregate demand and makes possible some degree of income redistribution is sufficient. If demand exists, then the industry and agriculture that supply the domestic market will automatically react, because they have an adequate capacity, sufficient labor power, and appropriate technology.

The mistaken idea here is not the defense of the domestic market, but rather the assumption that there is a contradiction between the development of this market and an export policy. Contradictions would exist only if the Brazilian economy were functioning at full employment and exports were a form of exporting workers' consumer goods and importing luxury consumer goods and capital goods, thus making the concentration of income compatible with the equilibrium of supply and aggregate demand. This is not the case in Brazil, or at least has not been since 1975.

### **Mature Industrialized Underdevelopment**

Although many other half-truths could be enumerated here, I feel that those I have just analyzed complement the analysis this book has been making of this present period in the Brazilian economy and its perspectives.

The current crisis of Brazil's economy is part of the world economic crisis that began in 1970. By all indications, this point marked the beginning of the slowdown phase of the long or Kontratieff cycle, which lasts approximately 50 years (25 of expansion, 25 of contraction). After the great postwar expansion, both the world economy and that of Brazil will remain in a relative slowdown until the 1990s. This type of transitional crisis affects not only a nation's economic situation, but also its political one.

In terms of the economy, it appears that we will come out of this crisis when Brazil implements a technological and industrial export policy that allows the country to improve its trade balance by exporting technologically sophisticated yet labor-intensive manufactured goods. Given the country's enormous debt on one hand and, on the other, the high degree of integration and sophistication of its industry (30 percent of its manufactured exports are machinery and equipment), this is probably an essential condition for the continuity of Brazilian development. Agricultural and energy policies are also important, along with an income policy that would lead to a progressive deconcentration of income while it maintained acceptable profit margins. This could be accomplished through a wage policy, an increase in social consumption expenditures, and a tax reform that would penalize individuals, especially *rentiers*, and make fraud more difficult.

But the fundamental challenge that Brazil faces today is to compete on equal terms with the central countries in the exportation of technologically sophisticated manufactured goods. The Brazilian economy has been successful up to this point in exporting manufactured goods, including technologically sophisticated products. Thus it is very possible that if we continue to increase our exports in this area that values our labor power, we will not become a victim of the new international division of labor. I call this new path that the Brazilian economy has taken the mature industrialized underdevelopment model. We continue to be an underdeveloped country to the extent that the highly productive capitalist sector is unable to absorb all available labor power, so that the social system remains permanently disintegrated. Yet the indexes of structural disintegration will diminish, and we will become a great exporter of manufactured goods, in direct competition with fully developed countries. The domestic market will increase as a result of this process. The idea that a contradiction exists between an export policy and the growth of the domestic market is a vestige from our primary export experience that makes no sense whatsoever in the Brazilian economy of today. The domestic market increases as the GDP grows, and today this growth depends on increasing exports.

There are no automatic solutions to the problems of redistribution of income and the integration of the urban and rural proletariat into the modern economy. These changes occur only as a result of permanent class struggle, and to the extent that popular movements, unions, and the left continue to develop and revindicate. This does not mean that Brazil is on its way to socialism in the short term. A revolution of the left has no prospects at this time, given the power and stability of the bourgeoisie and the technobureaucratic middle class, expressed by their broad ideological hegemony. In fact, the left itself is not interested in revolution, not only because it understands that this is impracticable at the moment, but also because it realizes that a left revolution at this stage of development would mean the implantation of statism rather than socialism.

However, the road to democratic and self-managed socialism is not closed to Brazil. It is a path located somewhere between the liberal bourgeois proposal and the authoritarian Stalinist proposal—a path that we will probably travel in relative solidarity with the European social democrats, despite the distinctive nature of mature Brazilian underdevelopment. It is a path that has its start in a series of radically democratic self-managed alternative social movements. It is still an untrodden path, but little by little becomes less utopian.