THE COLLAPSE OF DEMOCRACY IN BRAZIL:

Its Economic Determinants*

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Perhaps the most common generalization linking political systems to other aspects of society has been that democracy is related to the state of economic development. The more well-to-do a nation, the greater the chances that it will sustain democracy. (Lipset 1960, p. 31)

There are few examples in the history of Latin American studies of such generally accepted "facts" that were so contradicted by subsequent events as the association of democratic politics with industrial economies. Lipset's (1960) simple comparative study of Latin American nations in which he found a striking positive correlation between the degree of economic development and the extent of democracy in the late 1950s has been upset. The military coup d'état that abolished democracy in Brazil in 1964 turned out to be not a unique event, but the first of a series of military takeovers throughout the most industrialized nations of South America: Argentina, Uruguay, and Chile. For this reason, the study of the demise of electoral politics in Brazil acquires a new significance. And for this reason also, analysts are inclined to attempt explanations in terms of structural causes common to all capitalist nations on the periphery. The purpose of this paper is to examine one set of such explanations: those in which economic conditions play the major role.

The history of analyses of the 1964 coup in terms of its economic consequences is of interest in itself. In the 1950s, the dominant intellectual position in Brazil, labeled developmentalist-nationalism by Skidmore (1967), considered economic development to be dependent upon the political victory of the urban classes, who had an interest in industrialization, over those classes whose interests lay in maintaining the dominance of agricultural exports. It was an alliance of capitalists and

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industrial workers who, in overthrowing the hegemony of the landed elite and foreign merchants, held the promise of Brazil's future as an industrial and democratic nation. As Helio Jaguaribe stated in a speech before the Instituto Brasileiro de Economia, Sociología, e Política in 1954:

> The mistake of the Brazilian industrialists, on following the landowners and merchants, is to sacrifice, in the present, their possibility of surviving by allying themselves with the sectors of the bourgeoisie who are on the decline, condemned to be liquidated by the new ascendant forces of the country. . . . In the present conditions of the world and the country, this formula [one that would assure Brazil of economic development] can only be put into practice on the base of a common front in which the industrial bourgeoisie, the middle class, and the proletariat participate. (Martins 1965, p. 404; my translation)

The common front that was hailed by Jaguaribe was shattered in the early 1960s. Rapid economic growth gave way to stagnation and inflation. The broad centrist political coalition that supported Kubitschek gave way to a polarization of forces. On the one side was an unprecedented mobilization of the working class and an even more unprecedented mobilization of the peasantry demanding "essential reforms." On the other side, by early 1964, was a union of all propertied and affluent groups demanding military intervention. In March 1964, the incipient leftist mobilization of the rank and file of the armed forces served as the catalyzing event that permitted the military conspirators to forge a unity in the officer corps in opposition to the civilian government. With relatively little resistance or bloodshed, the military expelled Goulart from the presidency and, gradually over the next several years, suppressed all existing political parties and political figures, emasculated the trade unions, and consolidated an authoritarian regime committed to the restoration of a stable capitalist economy, unreformed and undisturbed by "communists" or "politicians."

The economic consequence was seen to be disastrous by intellectuals who had been associated with developmentalist-nationalism. In 1967, Helio Jaguaribe (1968) characterized the military regime as "colonial-fascist," predicting that the lack of an internal market would force the regime to seek increasing integration into the world economy which would result in economic stagnation and foreign domination. Celso Furtado (1968) predicted that the pastoralization of Brazil would be the price of the preservation of the status quo. The backdrop to these writings was years of continued stagnation and high unemployment. With their leaders and organizations repressed, the working class was unable to prevent wages from being sharply reduced. But paradoxically for those who saw the military as a simple instrument of the bourgeoisie, neither did the social classes which had sought and actively supported the military intervention receive much sympathy from the new government bent on ending inflation regardless of the consequent hardship. The sharply deflationary policies of the government reduced demand and restricted credit, causing a wave of bankruptcies and takeovers by multinational firms that had foreign sources of credit.[1]

In 1968, however, the Brazilian economy "took off" on a period of sustained rapid industrial growth of over 10 percent per annum for six consecutive years. In regard to the analyses briefly described above, two characteristics of the "Brazilian miracle," as it came to be called, stand

TABLE 1 *Annual Rate of Growth of the GDP and Cost of Living*

	Total GDP annual variation	*Industry annual variation*	*Per-capita GDP annual variation*	*Cost of living annual variation*
1948	7.4	11.3	4.7	3.5
1949	6.6	10.3	4.3	6.0
1950	6.5	11.3	4.0	11.4
1951	6.0	6.4	2.8	10.8
1952	8.7	5.0	5.6	20.4
1953	2.5	8.7	−0.5	17.6
1954	10.1	8.7	7.0	25.6
1955	6.9	10.6	3.7	18.9
1956	3.2	6.9	0.2	21.8
1957	8.1	5.7	4.9	13.4
1958	7.7	16.2	4.6	17.3
1959	5.6	11.9	2.4	51.9
1960	9.7	9.6	6.6	23.8
1961	10.3	10.6	7.2	42.9
1962	5.3	7.8	2.3	55.8
1963	1.5	0.2	−1.3	80.2
1964	2.9	5.2	0.0	86.6
1965	2.7	−4.7	−0.1	45.5
1966	5.1	11.7	2.2	41.2
1967	4.8	3.0	1.8	24.1
1968	9.3	15.5	6.3	24.5
1969	9.0	10.8	5.9	24.3
1970	9.5	11.1	6.4	20.9
1971	11.1	11.2	8.2	18.1
1972	10.4	13.8	7.3	14.0
1973	11.4	15.0	8.2	13.7

Compiled by Skidmore (1977), pp. 150, 170.

out. First, the growth became increasingly concentrated in the most technologically advanced sectors of the Brazilian economy, consumer durables and capital goods. Second, although the position of foreign capital remained unchallenged, domestic industrialists received a share of the prosperity. As Guillermo O'Donnell (1975) noted, the initial ruling duo of foreign capital and the state gave way to a trio which included domestic capital as a junior partner. Domestic capitalists were again able to find a sympathetic audience in the government that became increasingly willing to establish limitations on the growth of foreign capital and extend protection to domestic enterprises.[2]

In response, the thinking of many Brazilian intellectuals has gone through quite a reversal. The military uprising and the establishing of an authoritarian regime, instead of being regarded as having sacrificed the possibility of economic development for the sake of preserving the status quo, are seen as having been *necessary* to enable capitalist development to proceed. In the words of F. H. Cardoso, "The accumulation process required that the instruments of pressure and defense available to the popular classes be dismantled. . . . It had become necessary to restructure the mechanisms of accumulation at a higher level, one that would be better adjusted to the advances already accomplished in the development of productive forces" (Stepan 1973, p. 147).

This is the central question that will be addressed in this paper. Was the cause of the economic/political crisis of the early 1960s a disjunction between the requisites of a new stage of capitalist development and the political structure remaining from the previous stage? Or, more simply, did the resolution of the economic crisis require a transformation of politics such that the economic policies of the state could be insulated from the demands of the populace?

The contingent political question is whether there existed the possibility of an alternative between a socialist revolution that was scarcely possible, at least in retrospect, and the restoration of an authoritarian political system. Did the political polarization that marked the last years of the Goulart administration reflect a stark choice imposed by the process of economic development? Or, phrased another way, did the type of economic development that rested upon a political alliance of capital and labor lose its economic viability?

This paper will proceed by examining three alternative theories of economic determination of the breakdown of democratic regimes and assess their plausibility as explanations of the political/economic crisis that preceded the coup in Brazil. The first is actually a family of theories that stem from the work of Guillermo O'Donnell in which the political crisis is seen as a reflection of a transition from an early to a late stage of import substitution industrialization. The second is an approach developed by Adam Przeworski that emphasizes the importance of outcomes of distributional conflicts for political legitimacy. The third is a more traditional approach that stresses the importance of external constraints in producing a situation in which, for a democratically responsive government, there is no policy that would be both economically feasible and politically acceptable. The third approach, I will argue, remains the most convincing.

STAGES OF IMPORT SUBSTITUTION INDUSTRIALIZATION (ISI) AND POLITICAL STRUCTURES

It is Guillermo O'Donnell, in his studies of bureaucratic-authoritarian regimes, who put into a theoretical whole the sentiments of Cardoso and other Latin American scholars who saw democratic politics to be incompatible with further capitalist industrialization.[3] The roots of his analysis lie in the work associated with the Economic Commission for Latin America (ECLA) of the United Nations on the economic and political obstacles encountered in the process of industrialization through import substitution.

The strategy of ISI was conceived as the gradual and sequential replacement of previously imported manufactured goods by locally produced goods. Substitutions are made first in the easiest sectors, generally the final steps of the production of mass consumption goods where local entrepreneurs already have some experience and the capital requirements are small, such as textiles and foodstuffs. Growth eventually proceeds to the more technologically advanced and capital-intensive sectors of consumer durables and along backward linkages, to use Albert Hirschman's formulation, to the production of intermediate and capital goods. Although the process is, of course, a continuum, it can be analytically divided into an early stage in which light industry predominates and a later stage in which it is the growth of heavy industry that is central. The important distinguishing characteristics that have been attributed to the early and late stages of ISI are most easily presented in the form of a table.[4]

Early ISI	Late ISI
Growth is through horizontal expansion of already existing local industries which had previously only supplied a fraction of the	Growth is through vertical expansion into producing needed inputs, i.e., into intermediate and capital goods as well as horizontal

domestic market, especially consumer nondurables.	expansion into consumer durables.
The industrial sector is characterized by a primitive level of technology. Entrance costs are low because of incremental requirements of capital and expertise.	The industrial sector is characterized by an advanced level of technology, hence, large requirements of capital and expertise. Entrance costs are high.
There is growth through increasing employment as labor productivity stagnates.	There is growth through increasing labor productivity as employment stagnates.
Production is aimed at the low-income market. Hence, demand is dependent upon the spending of the popular classes.	Production is aimed at the high-income market. Hence, demand is dependent on the spending of the upper classes.
There is declining participation of foreign capital in the national economy.	There is increasing participation, even predominance, of foreign capital in the national economy.

The first stage of ISI is hypothesized to have provided the material base for populist regimes. The tremendous contraction of international trade during the Great Depression, which provided the original impetus for embarking on a program of import substitution, undermined the economic dominance of the agrarian export sector. The rapid expansion of manufacturing, together with the consequent large internal migration from the countryside to the cities, provided the potential for an urban-based political movement to come to power. Under the banner of autonomous development and the subordination of class interests to the state for the sake of economic growth, the workers sought higher wages, the capitalists higher profits, and they both sought import controls and exchange rates that gave their interests priority over the export sector.

However, only in the short run is import substitution free from dependence on export earnings. In the absence of foreign exchange with which to import capital goods, industrialization is inevitably based upon intensive utilization of already existing capacity and technologically primitive methods. The building of an industrial plant is an import-intensive activity when there is no local capital goods sector. Rather than diminishing the need for imports, a program of import substitution merely changes their composition. Imports of finished goods are replaced by imports of intermediate and capital goods, raw material, fuel, and often food as agricultural production falls behind the rising demand, with the paradoxical result of an increase in dependency on export earnings. As Raúl Prebisch (1961) pointed out, initial declines in import capacity force a curtailment in the imports of manufactured consumer goods, especially the more expensive, luxury goods. Subsequent declines have a far more depressive effect on economic activity as the curtailment of imports becomes the curtailment of vital inputs necessary for production and popular consumption.

According to O'Donnell, as import constraints continue to threaten economic development, policymakers are under recurring pressures to push import substitution further, to enlarge its scope, to integrate the domestic industrial sector vertically (to develop local heavy industries that could supply the economy's need for intermediate and capital goods). Yet, as economic growth proceeds into the "late" stage of import substitution, the obstacles multiply. The requirements of technology, capital, and organization become greater, the maturation of investment longer, the minimum plant size, hence the minimum necessary market, larger. In other words, there is a tendency for a declining rate of growth. Structural limitations, especially the lack of a sufficient market, increase in saliency.

In O'Donnell's formulation, the cumulative effects of the inherent bottlenecks reach a critical point at which further economic growth depends upon a substantially different political environment. The greater resources needed to engage in heavy industry exclude the participation of local industrialists since only the state or multinational corporations have the necessary financial capacity and technological expertise. In either case, cooperation with foreign capital in ventures of a large scale and slow maturation is necessary. The requirements for such cooperation are stability and predictability: the government must provide consistent policies, stable prices and exchange rates, the freedom to remit profits, and the guarantee that foreign investments and loans will be secure if foreign investment is to be attracted on the necessary scale. O'Donnell concludes that, in order to enact such a program, the state has to be insulated from the demands of those groups that, in the first stage of ISI, were its main supporters. Once the opportunities for growth in the early stage of ISI have been exhausted, the resumption of economic development depends on the establishment of an authoritarian regime.

In subsequent works by Kaufman (1977) and Collier (1977), the argument has been expanded to include the promotion of manufactured exports as an alternative means of overcoming import constraints and permitting further growth. The promotion of manufactured exports is quite different from vertical integration in that it would involve expansion of traditional labor-intensive industries into world markets. But again, export diversification would require substantial changes in the economic policy of populist regimes. Policies protecting inefficient local producers from international competition would have to be eliminated. Overvalued exchange rates, or systems of multiple exchange rates that taxed exporters and aided importers of items given priority (food and industrial inputs), would have to be revised. Whether to attract foreign investment or to promote manufactured exports, policies that would favor the discredited, unpopular agricultural exporters and foreign capitalists have to be enacted over the opposition of domestic industrialists and urban workers.

The thesis of the necessity of vertical integration does not stand up well upon comparison with the features of the boom that followed the coup. The import coefficient, the percentage of imported inputs of the total used in Brazilian industry, rose sharply as the economy recovered (Malan and Bonelli 1977, p. 31). A rising import coefficient is to be expected with the resumption of investment and the easing of the foreign exchange constraint. Nevertheless, the fact that vertical integration *decreased* casts doubt upon the importance of *increased* vertical integration in the postcoup recovery. In addition, the boom at first was led by a surge in the production of consumer durables, especially automobiles. By 1970 capital and intermediate goods industries began to grow at a rapid pace (apparently in response to an increasing gap between demand and local supply), replacing consumer durables as the leading sector in growth. That the growth of heavy industries lagged behind the resumption of growth in consumer durables, however, leads one to consider it less of a cause than a consequence of the recovery.

The case is less clear with the promotion of manufactured exports. The military successfully used a bundle of credit and tax subsidies with a series of mini-deflations that reduced the price abroad of exported goods to half their domestic price. The result was a rapid growth of manufactured exports. That the increase was important enough to have been the engine that pulled the economy out of the recession is doubtful. In 1970, manufactured exports still accounted for less than 15 percent of the total exports. The rise in the price of coffee did as much to bring in foreign reserves (Serra 1972, p. 206).

José Serra (1972) proposed another variant of this general line of analysis. Observing that the boom was characterized by an increased concentration of income, as wages plummeted, and by a large expansion of credit for the purchase of consumer durables, he argues that the government overcame stagnation by widening the domestic market for consumer durables at the expense of the consumption of the lower classes.[5] Further, by expanding the high-income market, demand is concentrated for those products whose production has the greatest number of linkages with other sectors, and those in which economies of scale are most important. Thus, the military expanded the market that mattered most in terms of resumption of economic growth, that of the upper class. As Erickson and Peppe wrote in a recent espousal of this view: "Once Latin American nations began to produce consumer durables as costly as automobiles, it became necessary to concentrate enough income in the hands of the middle and upper groups to create potential buyers" (1976, p. 25).

All of the writers presented above have tended to underemphasize the fundamental similarity of the boom of the 1950s and the boom of the late 1960s and early 1970s. Both were led by the growth of consumer durables, in particular, automobiles. Both involved substantial growth in intermediate and capital goods sectors as well. In both, the role of the state in developing basic industries, particularly in energy and transportation, was crucial. Both witnessed large inflows of direct foreign investment and massive inflows of foreign loans. In fact, the growth of the activities of the multinational corporations and the state, and the spurt in the production of consumer durables were, if anything, more salient under the "populist" regime of Kubitschek than under the military. As Kaufman (1977) has pointed out, a reasonable specification of the turning point in Brazilian economic growth from light to heavy industry would be 1950, when the local industry already supplied 90 percent of the nation's textile needs and subsequent import substitution would have to be in nonconsumer or durable goods.

Such an observation does not settle the matter. It is perfectly possible that the prevailing distribution of wealth allowed a certain amount of slack in which economic growth could proceed before the internal market for automobiles was exhausted.

More systematic evidence to the contrary is provided by Smith and Morley (in Stepan 1973) who test the implicit counterfactual proposition contained in Serra's argument: if the drastic redistribution of income did not occur, economic growth would not have resumed. Using an econometric model to simulate economic growth in response to varying compositions of demand corresponding to hypothetical income distributions, Smith and Morley conclude that the concentration of income does, in fact, increase the overall rate of growth, but not by very much. The difference in the simulated annual rate of growth in the most regressive experiment with the upper class gaining the entire increment of growth (which, in fact, is close to what happened) and the experiment in which the income shares of 1961–63 were kept constant, was .0078 (p. 132).

Apart from empirical evidence, pro or con, all of the preceding analyses suffer from a functionalist form of argumentation. As Albert Hirschman has noted (1977), it does not necessarily follow that, because a drastic redistribution of wealth was a consequence of the coup d'état, it was a determinant of the coup d'état. In general, one cannot argue that consequences are causes without specifying how they could be causes. To make the preceding arguments plausible, for example, one would want evidence that in 1964 the military and civilian backers of the coup saw regressive income redistribution and the promotion of non-traditional exports as necessary instruments for the restoration of economic growth.[6]

I would argue that the focus of the literature discussed so far has been somewhat misplaced, insofar as it seeks to explain the causes of the coup. Studies of the postcoup policies of the military are important, for subsequent events rightly shape our thinking about preceding critical periods; but causal explanations of the coup must ultimately be grounded in the actions that preceded it. At some point, the study of the relationship between the economic crisis and the policies followed by the military must be put aside and replaced by studies of the relationship between the economic crisis and the political crisis during the administration of Goulart.

CAPITALIST DEMOCRACY AND DISTRIBUTIONAL CONFLICT

An alternative theory of the interaction of economic and political dynamics that results in crises of democratic regimes has been developed by Adam Przeworski (1979). The basic premise is that the distribution of income, the distribution of the material resources of the society among all who claim a share, is as much a political question as an economic question. The determinant of the distribution of income is class struggle between collectivities defined by their location in the process of production, and it is this class struggle over the distribution of income that is the central political struggle of capitalist societies.

Such an assertion is not in accordance with the long-standing neoclassical concepts in economics in which income distribution is determined by marginal productivity, nor with the main lines of Marx's analysis in which income distribution is determined, in the long run, by the process of accumulation.[7] Yet, the capitalist mode of production is precisely different from previous modes of production in that the distribution of income is not fixed by law or convention. Capitalism provides no guarantee of a "decent" profit or a "just" wage. There is no mechanism by which the distribution of income is determined apart from competition, which pits capitalist against capitalist, worker against worker, and capitalists as a class against the working class. Only the limits are determined by the mode of production: on the one hand, the minimum subsistence wage necessary for the survival and reproduction of the working class, on the other hand, the minimum profits necessary for the reproduction of the mode of production, for capitalists to continue to act as capitalists. But between these limits there is substantial latitude. This is not to deny the importance of the workings of the market as a determinant of the distribution of income; it is to insist upon the importance of nonmarket factors as well: the strength of the organizations of the working class, the strength of the organizations of the capitalist class, the policies of the state, and so on.

The role of the state deserves some elaboration. The state acts not only through an array of policies that redistribute income, but as the regulator of conflict. Certain tactics are proscribed, others legitimized and supported. Unions may be encouraged, strikes tolerated, or unions may be suppressed and strikes broken by military force. Certain outcomes are prohibited, such as wages below the minimum wage. The rules governing distributional conflict affect both the relative power of the contending groups and the range of possible outcomes. In other words, the rules of conflict fix a probability distribution of outcomes. The substance of national politics is often conflict over the rules governing distributional struggle, and over the rules of making and enforcing the rules. No set of rules is neutral; all embody the existing balance of political power.

In this context, a democratic regime is distinguished by its institutionalized, periodic indeterminancy; and it is precisely this indeterminacy that is the source of both its strength and its weakness. Because participation matters, no organization can refuse to participate for long and retain the loyalty of its followers. Yet the act of participation fashions organizations that are compromised by the prevailing social order. The development of parliamentary skills is not conducive to the development of revolutionary ones. On the other hand, real indeterminacy means that both sides must be willing to settle for less than they want; both must make compromises. And here Przeworski elaborates Gramsci's point, that the willing acquiescence of subordinate classes to the hegemony of the capitalists, to the reproduction of the capitalist system, is contingent upon the satisfaction of minimal material demands. Profits today are treated as loans by the working class for which they will demand repayment in the future in the form of higher wages. Conversely, capitalists willingly acquiesce to a democratic regime in which there is nothing to prevent the political representatives of the working class from taking charge of the government upon the condition that wages do not rise so high as to confiscate profits. Capitalist democracy is a compromise; a compromise that will only be supported as long as distributional outcomes satisfy the minimum demands of the participants. A distributional outcome that falls outside of the acceptable outcomes will bring on a crisis.

In postwar Brazil, the political nature of distributional conflict has been especially transparent. The corporatist system established by Vargas transformed the trade unions into quasi-governmental bodies with a fluctuating, but always limited, degree of autonomy and incorporated wage bargaining into the offices of the Ministry of Labor and the presidential palace.[8] But even more explicit were the distributional consequences of the 1964 coup d'état. As the political power of the working class was destroyed, so was their material position. Statistics published by the Departamento Intersindical de Estatística e Estudos Socio-Econômicos (DIEESE), a research organization financed by the trade unions, revealed that the average real wage of a worker in São Paulo, who maintained his employment and received all his legal raises, declined 31.5 percent from 1964 to 1969. However, in a survey done in 1969, DIEESE found the average real wage to be even lower, representing a 46 percent drop in the five years following the coup (DIEESE 1970). National census data disclosed that between 1960 and 1970 the lowest 50 percent of the working population saw their share of the total product reduced from 17.7 percent of 13.7 per cent, while the share of the top 5 percent increased from 27.4 percent to 36.2 percent (Schmitter in Stepan 1973, p. 202).

Postwar Brazilian politics was marked by an ascendant mass movement.[9] Its origins, as a political force, lie in the last years of the Vargas dictatorship, when, in preparation for the coming democratization, Vargas fashioned two political parties, the Partido Social Democrático and the Partido Trabalhista Brasileiro, whose alliance would govern Brazil (with the brief exception of the nine-month presidency of Quadros) for nineteen years. It was an uneasy balance of forces. The urban popular classes proved decisive in presidential elections but never in the legislature where the system of regional representation and *coronelismo*, the rule of political bosses in the rural areas, maintained an effective veto power of the landed elite. The rural masses, being illiterate, were not enfranchised. Nevertheless, the dominant force in Brazilian politics, from the return of Vargas as a freely elected president to the administration of Goulart, was a multi-class coalition with popular support and committed to a capitalist development of Brazil.[10]

If, as Weffort (1968) suggests, populism was the manifestation of the weakness of the urban dominant groups that were unable to establish a hegemony, like that exercised by the rural elite in an earlier period, and were forced to rule indirectly in an alliance with the state bureaucracy and the urban popular classes, nevertheless, it was the growth of a capitalist economy to which the alliance was committed and antagonistic interests subordinated.[11] In addition, it was an alliance in which antagonistic interests were satisfied.

Cardoso (1968) has specified the harmony of interests that provided the material base of populism to be predicated upon a rapid expansion of the work force without a rise in wages. In other words, those in marginal positions were able to increase their income by acquiring better-paying industrial jobs, while the continual presence of a large marginal population kept industrial wages from rising. While being an accurate formulation of the pattern of growth in the 1930s and 1940s, by the late 1950s the rate of growth of industrial employment had slowed to below the rate of growth of the population, and wages were rising.[12]

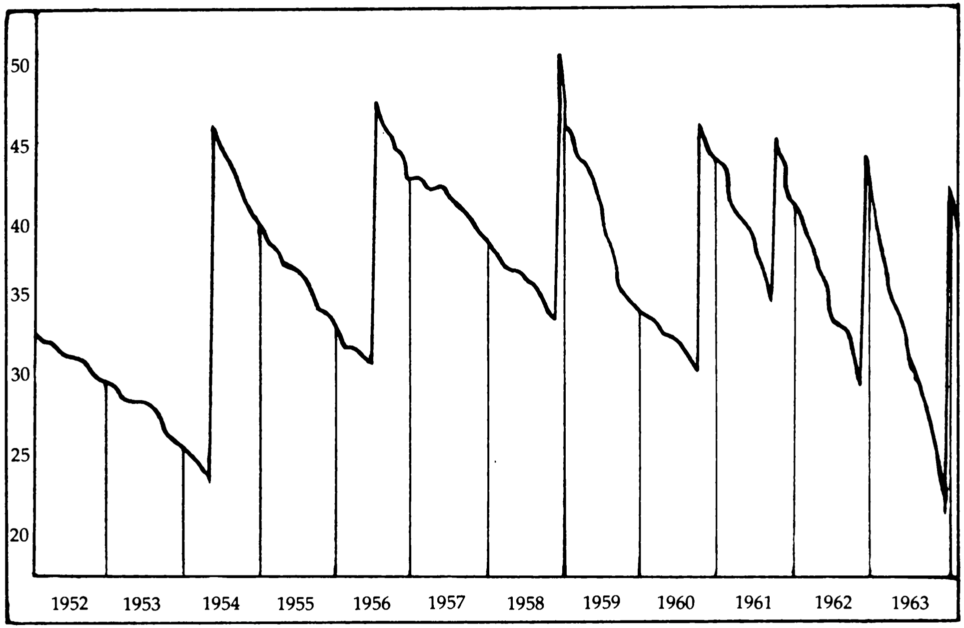
Weffort (1972) was more accurate in summing up the political strategy of the trade unions between 1955 and 1964 as: "the employer ought to concede increases in the wages of the employees and the government ought to guarantee the employer conditions such that such an increase could be granted" (chap. 4, p. 29; my translation). According to Weffort, unions fought alongside industrialists to obtain protective tariffs, subsidies, and credit from the government that would enable both profits and wages to be increased, perhaps at the expense of the rest of society that had to pay higher prices. During the Kubitschek years, it was possible to increase both real wages and real profits at a cost of moderate inflation. In contrast, during the Goulart years, with economic growth having come to a halt and with the working class having acquired unprecedented autonomy and political presence, it seems plausible, as has been suggested by Jaguaribe (1965) and Cardoso (1968), that the bourgeoisie withdrew their support from the democratic regime because continued increases in real wages threatened to reduce profits to insupportable levels.

Unfortunately, the importance of the behavior of wages and profits preceding the coup in this line of analysis is not matched by an availability of consistent data. There are three indicators of the material position of the industrial working class during these years. There is the legally established minimum wage which, discounting infractions of the law, should be the actual wage received by unskilled laborers. This is often taken as an indicator of the behavior of wages in general, although I have never seen statistics of the actual percentage of the work force it encompasses (for an example see Erickson 1975). There are official and semiofficial figures for average wages in manufacturing in Guanabara published by the government in the *Anuario Estatístico* and by the Getulio Vargas Foundation in *Conjuntura Econômica*. Finally there are surveys done by the union-financed research institute DIEESE, in São Paulo.

Table 2 presents the behavior of the real minimum wage from 1952 to 1964. Table 3 presents an index of the real median industrial wage from official sources from 1946 to 1963. Both tables present the surprising finding that real wages reached a peak in the middle of the Kubitschek administration. The real minimum wage was lower in 1963 than it had been in 1952. The decline in wages following the military assumption of power appears to be the continuation of a decline that began four years earlier, in spite of the growing militancy of the working class. Such a decline in wages before 1964, however, is disputed by the data published by DIEESE presented in table 4.[13] Nevertheless, even in the DIEESE data, a large rise in wages is conspicuous by its absence during the Goulart years.

The crucial question from the point of view of the material base of class compromise is the relationship between wages and profits. Kahil (1973) has calculated the share of industrial profits and wages in the net domestic income from 1947 to 1963 which is presented in table 5. It appears from his figures that the period can be divided into three phases. From 1947 to 1954 the industrial wage share and the share of the industrial sector rose together, although before the new minimum wage went into effect in July 1954, real wages declined (table 3) which fits well with Cardoso's model of the material base of populism. From 1954 to 1960 the wage share dropped while the share of industry rose only slightly and real wages rose. From 1960 to 1963 both the share of industrial wages and the share of industry rose and the behavior of wages is unclear. Nevertheless, what appears most significant for explanations of the political behavior of the bourgeoisie is the narrow range of fluctuations of the profit share, varying from 1948 to 1963 within about one percentage point, especially in light of the fact that, all things being equal, one would expect the profit share to fall in a recession as initially production is reduced without a corresponding reduction in the wage bill. I would have presumed this tendency would have been accentuated in Brazil due to the stability rule that restricted the discharge of employees of ten years or longer (Gordon and Grommers 1962, p. 115).

T A B L E 2 Real Minimum Wage in Rio de Janeiro, March 1952–March 1964 (in cruzeiros of February 1964)



Sources: *Anuario Estatístico do Brasil–1972*. Rio de Janeiro: Fundação IBGE, Instituto Brasileiro de Estatístico, p. 549. *Conjuntura Econômica* 1955–1965 (January issue of each year). Rio de Janeiro: Fundação Getulio Vargas.

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TABLE 3 *Official Figures for the Real Median Wage in Industry in Guanabara, 1946–63 (Index: 1946 = 100)*

1946		100	1955	Mar.	112
1947	June	87		Apr.	112*
	Dec.	89		June	110
1948	June	90		Sept.	108
	Dec.	95		Dec.	105
1949	June	100	1956	Mar.	98
	Dec.	103		Apr.	105*
1950	June	101		June	101
	Dec.	99		Sept.	121
1951	June	91		Nov.	123*
	Dec.	97	1957	Apr.	122*
1952	Mar.	96		Nov.	126*
	June	95	1958	Apr.	119*
	Sept.	94		Nov.	116*
	Dec.	90	1959	Apr.	127*
1953	Mar.	89		Nov.	109*
	June	86	1961	Apr.	117*
	Sept.	83	1962	Apr.	119*
	Dec.	79		Nov.	103*
1954	Mar.	75	1963	Apr.	112*
	June	81			
	Sept.	125			
	Dec.	117			

Sources: *Conjuntura Econômica*, except those marked by an asterisk, which are taken from *Anuario Estatístico*, compiled and deflated by the cost of living index for GB by Kahil (1973), p. 65.

TABLE 4 *DIEESE Figures for the Real Median Wage in São Paulo, 1958–1969 (Monthly NCr$ of 1958)*

1958	8.54
1959	8.29
1960	8.67
1961	8.98
1962	9.36
1963	9.25
1964	9.61
1965	8.14
1966	6.88
1967	6.49
1968	6.51
1969	6.58

Source: DIEESE 1970

TABLE 5 Income Shares of Labor and Capital in Industry

	Share of profits in industry and transport in net domestic income (current prices)	*Share of wage bill in industry in net domestic income (constant 1953 prices)*	*Share of industry in net domestic income (current prices)*
1947	15.2	8.9	19.9
1948	15.9	10.7	21.4
1949	17.0	12.2	23.2
1950	17.1	12.6	23.5
1951	16.0	12.5	22.5
1952	16.7	13.1	23.8
1953	16.4	13.5	23.7
1954	17.0	13.8	24.7
1955	16.5	13.5	24.4
1956	16.8	12.9	24.7
1957	16.6	13.3	24.4
1958	16.9	13.0	25.0
1959	16.9	12.3	25.2
1960	16.7	12.2	25.2
1961	16.5	12.7	25.3
1962	15.8	13.1	24.7
1963	16.7	15.2	26.8

The wage bill was deflated by the cost of living index. These figures were calculated by Kahil (1973), pp. 135, 140.

For an alternative comparison of wages and profits in the 1960s, in table 6 an index of the real profits of Brazilian corporations published in *Conjuntura Econômica* is juxtaposed with an index of real average wages in São Paulo calculated from the figures published by DIEESE in table 5. Both wages and profits move in the same direction before 1967, reflecting the growth or stagnation of the economy as a whole. But comparing the growth of wages to the growth of profits from 1960 to 1964, and assuming that the labor force grew by the rate of population growth that would have increased total wages by 3.1 percent per annum, the increase of total wages consistently lagged behind the increase of total profits.

In sum, the data do not seem to support the argument of Jaguaribe and Cardoso that wage increases during the Goulart years were reducing the profit margin of Brazilian industrialists. If anything, it was capital, not labor that was favored after 1960. It is noteworthy that the journal of the Confederaçao Nacional da Industria (1962, p. 4), the official organization of the industrialists, published an editorial in Sep-

TABLE 6 *Profits and Wages (in Real Terms: 1960 = 100)*

	Total Net Profits		*Average Wages*
	a	*b*	
1960	100	100	100
1961	115	112	104
1962	131	132	108
1963	125	127	107
1964	143	147	111
1965	143	139	94
1966	144	125	79
1967	123	101	75
1968	162	158	75

Sources: Profit figures are from *Conjuntura Econômica* 24, no. 2 (Feb. 1970):48. Wage figures are from DIEESE 1970, table 3.

a = all corporations

b = industrial corporations

tember 1962 expressing the fear that the working class would gain a moving wage, one that was pegged to the rate of inflation, arguing that the savings generated by inflation, i.e., the declining real wages, would be lost.

Before dismissing the importance of the threat that rising wages posed to profits in the political events preceding the coup, let me examine the question of sectoral differences suggested by the body of work discussed above on early and late sectors of import substituting industries. In much of the writing, there is an assumption of a clear correlation between lower wages, the growth of heavy industry under the guidance of foreign capital, and the stagnation of light industry. As Erickson and Peppe state: "this type of economic development began reducing unskilled workers' real wages even before the aggressively anti-union coup of 1964" (1976, p. 24).

There are basically two arguments that are invoked explicitly or implicitly to explain this connection. First, the restriction of opportunities for employment, as production becomes more capital intensive, increases the marginal population, the reserve army of the unemployed, which forces wages down through market pressures. Second, the new enterprises, not producing goods that their workers can aspire to purchase, are more hostile to organized labor. Granting, for the moment, that such a decline occurred, these reasons seem unconvincing. Wages did not fall uniformly throughout the 1950s, when the growth of industrial jobs fell below the growth of the population, and far below the growth of the urban population (see note 12). Rather, wages rose, at least until the middle of the Kubitschek administration (1957–59), suggesting that other factors were of greater importance in the determination of the level of wages than the size of the marginal population. As for the second argument, the work force figures into the accounts of the capitalist as a cost as well as a potential market. The most advantageous position of any single capitalist is to pay low wages while all other capitalists are paying high wages. Such a contradictory position doesn't lend itself to any clear a priori statements about the disposition of light industrialists to accept wage increases.

In fact, it is precisely those industries that supply the demand created by the consumption of the popular classes that have the most difficulty absorbing higher wages. They are more labor intensive, i.e., wages are a greater proportion of their total costs than in the more modern sector, and they are less likely to be able to increase labor productivity through mechanization, or pass the increased cost on to consumers through oligopolistic control of the market. An alternative approach to the effects of the development of a capital-intensive sector upon the populist coalition would be a hypothesis that wage increases granted easily in the capital-intensive sector spread to labor-intensive sectors where they squeezed profits. Further, it could be argued that it was the absence of the multinational corporations as a force in domestic politics, an absence in the Brazilian case of those industrialists most able to compromise with organized labor, that weakened the political compromise between capital and labor.

In an attempt to reveal any sectoral divergence in the behavior of wages and profits along the lines suggested by either analysis presented above, which would have been hidden in the aggregate figures, I isolated the sectors that grew over 200 percent between 1949 and 1962: metals, machinery, transportation equipment, rubber, chemicals and pharmaceuticals, and tobacco (Morley and Smith 1971, p. 123). (Plastics would also fit into this category but data on wages and profits are not available.) That this grouping corresponds to the sectors in which foreign capital is concentrated is attested to by the fact that almost the same list could have been obtained by taking all sectors in which the market share of foreign firms was over 30 percent. Metal, in which the participation of foreign capital is 20.9 percent and the state 8.5 percent, and cosmetics, in which foreign firms supply over half of the market but which did not show rapid growth, were the only exceptions (Morley and Smith 1971, p. 128). Note that this grouping does not exactly correspond to the consumer durables and capital goods sectors. Tobacco is a consumer nondurable while furniture, wood, and nonmetallic minerals would be classified as consumer durables and capital goods. Nevertheless, the present division seems to come closest to separating sectors on the basis of capital intensity and foreign participation. A weighted average of wages and profits for the dynamic sector was calculated and compared with overall wages and profits as given in the *Anuario Estatístico* and *Conjuntura Econômica*;[14] the results are shown in tables 7 and 8.

If we presume that the dynamic sector employed a more highly skilled work force than the nondynamic sector, the data on wage differentials support Kahil's (1973) assertion that increases in the minimum wage tended to reduce wage differentials which then gradually reasserted themselves as higher paid workers regained their previous position, at least until 1961. For the Kubitschek years as a whole, as minimum wages rose in real terms, wage differentials between sectors were somewhat lower than in the Quadros and Goulart administrations when real minimum wages began to decline. This would seem to indicate that the government wage policy was more detrimental to the interests of the nondynamic, domestic sector under Kubitschek than in the years of

TABLE 7 Wage Differentials between the Dynamic and Nondynamic Sectors

		A	*B*	*A/B*
		Average wage in the dynamic sector (Cr$)	*Overall average wage in industry (Cr$)*	
1955	Apr.	3160	2454	1.29
1956	Apr.	3250	2767	1.17
	Nov.	4214	3819	1.10*
1957	Apr.	4404	3868	1.14
	Nov.	4850	4074	1.19
1958	Apr.	5054	4336	1.17
	Nov.	5707	4706	1.21
1959	Apr.	6735	6115	1.10*
	Nov.	7943	6750	1.18
1961	Apr.	11608	9666	1.20*
1962	Apr.	17547	13928	1.26*
	Nov.	22671	18224	1.24
1963	Apr.	28842	23766	1.21*

Sources: Anuario Estatístico 1962, 1965. Figures are for all of Brazil. Asterisk denotes passage of new minimum wage between the two observations.

TABLE 8 *Wage Differentials between the Dynamic and Nondynamic Sectors*

	A	B	A/B
	Profits as a % of total investment in the dynamic sector	*Profits as a % of total investment in industry*	
1952	10.7	7.2	1.49
1953	10.6	9.7	1.09
1954	11.5	10.6	1.08
1955	9.0	7.1	1.27
1956	9.0	7.1	1.27
1957	8.3	6.6	1.25
1958	9.0	7.9	1.13
1959	9.4	8.8	1.07
1960	9.9	9.7	1.02
1961	9.9	10.1	.98
1962	10.8	11.1	.98
1963	13.2	10.9	1.21
1964	11.7	10.6	1.10

Sources: Yearly financial survey published in February issue of *Conjuntura Econômica*. Figures are for all of Brazil. (See also note 15.)

crisis in the early 1960s. The data on profits also indicates that the nondynamic sector was improving its profitability relative to the dynamic sector prior to 1963.[15]

An obvious lack in the sectoral analysis of wages that has been presented is the absence of any data on wages in the state sector, which is unavailable. The importance of the work force in the state sector lies both in the immediate connection between their wage demands and the inflationary deficit spending of the state, as well as in the central role they played in the political events of the Goulart years. It was the state workers in transport and shipping in the major cities, organized into the Pacto Sindical de Unidade e Ação and capable of bringing transportation to a halt in the country, who were the strength behind the pressure the unions were able to apply to the Goulart administration.

All in all, there appears little in the data to support a theory of political crisis placing much emphasis on a changing pattern of wages and profits due to the changing composition of industry in Brazil. The fact that wages were declining in the traditional sector relative to wages in the dynamic sector casts doubt on any simple assertions that the growth of the dynamic sector caused a decline in wages. Neither is the alternative hypothesis supported. Although, under Kubitschek, the rapid growth of the capital-intensive "modern" sector was accompanied by real increases in the minimum wage that was especially detrimental to the traditional sector, under Goulart this policy was reversed.

The result of this excursion into wage and profit data is a series of negative findings that present a paradox. Under Goulart, the veteran politician whose career had been most closely tied to the interests of the working class, the real wages of at least the substantial number of workers receiving the minimum wage fell while profits remained surprisingly stable in the midst of an economic downturn. In terms of distributional outcomes, Kubitschek's policies were more pro-labor. Why wasn't the rising political power of the unions translated into economic concessions? Weffort's (1972) description of labor's strategy again appears accurate: faced with a faltering economy, and without the strength to attempt another insurrectionary strategy, the leadership of the labor movement moderated wage demands and concentrated on an agenda of reforms, a strategy which produced dissatisfaction among the rank and file who sought higher wages.

Two qualifications need to be added to this negative conclusion. The first is the inevitable warning about the reliability of the data, especially the data on profits gathered in a highly inflationary environment. In addition, the use of yearly data may be hiding highly significant short-term movements in wages and profits in the last few months before the coup. Second, although we found no evidence that the bourgeoisie took to the streets to demand military intervention in the face of an actual profits squeeze, the threat of a potential profits squeeze in the future might be a sufficient explanation. After all, the reforms sought by labor were significant. The agrarian reform, above all, was a political reform that would have enabled the peasantry, no longer quiescent or ignored by urban political movements as they had always been previously, to participate actively in politics as an independent force. Such a prospect posed a direct threat to the position of the landed elite, and hence to the balance of forces that had prevailed since the end of the Estado Nôvo.

Nevertheless, I feel that there is a sufficient explanation of the demise of the class coalition that underlay the democratic regime that does not rest upon an anticipation of a future profits crisis. Such an explanation turns on the unsuccessful attempts, from 1959 to 1964, to implement a stabilization program.

THE POLITICAL CONSEQUENCES OF ECONOMIC STABILIZATION

As Fishlow remarked (Stepan 1973, p. 104), it is more fashionable to talk of obstacles to economic development than economic cycles. Yet the cyclical nature of economic growth, with alternations between spurts of rapid industrial development and periods of stagnation and accelerating inflation, will prove to be a more adequate perspective of the economic crisis during the early 1960s than that offered by theories of an exhaustion of an early stage of ISI and the economic difficulties inherent in moving to a later stage.[16] The political crisis was not so much provoked by a new set of political requisites corresponding to a new stage of economic growth, as by the inability of the populist regime to survive a period of stagflation. What split the populist coalition apart was not the distributive effects of the changing economy (or needed by the changing economy) but the threatened distributive effects of the policies that were seen as necessary to combat inflation and restore economic growth, policies of stabilization.

The twin spectres that have haunted the Brazilian economy in the postwar years are inflation and balance of payments (BOP) crises, and much of Brazilian economic policy can be understood as attempts to maintain economic growth while mitigating their effects. To understand how attempts to deal with inflation and the BOP crisis provoked a political crisis and to answer the question of whether alternative policies existed, we must begin with a model that explains the pervasiveness of these phenomena in Brazil's pattern of economic growth.

The causes of inflation in Latin America have been the focus of one of the most heated debates amongst economists in Latin America. The contestants have divided into "structuralists" who stress the unresponsiveness of supply (because of structural bottlenecks) to increasing demand, and "monetarists" who blame excessive demand created by "mistaken" government policies. Recently, however, the debate has subsided, at least in the case of Brazil, under the authority of a massive collection of empirical data that seems to set the record straight. The most comprehensive study of inflation in Brazil between 1946 and 1963, written by Raouf Kahil (1973), systematically submits each of the specific bottlenecks proposed by the structuralists to empirical test and finds them wanting. Kahil concludes: "The immediate causes of the persistent and often violent rise in prices, with which Brazil was plagued from the last months of 1948 to the early months of 1964, are pretty obvious: large and generally growing public deficits, together with too rapid an expansion of bank credit in the first years and, later, exaggerated and more and more frequent increases in the legal minimum wages" (1973, p. 329).

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As it stands, the conclusion is deceptive, not because it is untrue, but because it is more in the nature of redefining the question than in closing the discussion. It seems clear that inflation is an economic consequence of government policies. Therefore, as Kahil himself hints in the last pages of his book, the study of the causes of inflation has to be ultimately a study of the structure of politics such that inflation-provoking policies are pursued by the government.

Albert Hirschman (1963), in a similar vein as the theory of the political determination of income distribution, has formulated a "sociological" theory of inflation. Inflation is understood as an outcome of a particular structure of conflict over the distribution of income. It is the result of individual firms raising prices and individual labor unions raising wages in continuous attempts to improve or maintain their relative position. Such a strategy, however, is impossible without the collaboration of the state. Given a limited demand, prices or wages can only be raised to certain optimal levels beyond which reduced sales will undercut the higher profits gained per sale. The result will be either a lowering of production and layoffs, or a reduction of prices (and wages). However, if the government acts to maintain full production and employment with policies aimed at stimulating aggregate demand or expanding credit to enable a firm to pay higher wages, inflation will be the result. The state policies defuse the immediate conflict by granting the demands of groups powerful enough to press them and placating their opponents by socializing the resultant loss throughout the society in the form of higher prices. Inflation lessens the opposition of capitalists to union demands as it enables employers to absorb the cost of higher wages by raising prices. Keynesians have long argued that labor is less opposed to a reduction of wages through inflation than through a reduction of nominal wages. It is not a matter of money illusion masking the true movement of wages and profits, but the entirely rational position that employers in the first case, and workers in the second, will acquiesce to inflation before acquiescing to a direct reduction of their profits or their wages because the loss is spread throughout the society. They do not have to bear the entire burden. Needless to say, the competition is between firms and sectors of production, as well as between segments of the working class, in addition to struggle between classes. Inflation, then, is the result of government policies of conflict avoidance, as the "peaceful civil war," to use Hirschman's phrase, proceeds apace.

Such a theory tells us little about the changing rate of inflation, varying roughly between 10 and 20 percent from 1950 to 1958, accelerating in 1959, slowing down slightly in 1960, and then taking off from 1961 to reach a peak around 100 percent when Goulart was overthrown. The most frequent explanation has already been mentioned—the increasing government deficits in the early 1960s. The average deficit of all levels of government from 1956 to 1960 was 0.7 percent of the GDP. In 1961, the deficit was 2.9 percent; in 1962: 4.8 percent; 1963: 3.8 percent; 1964: 4.4 percent. Yet, the large deficits were the result of falling revenues rather than expanding expenditures. While the total expenditures remained almost constant as a percentage of the GDP, going from 23.3 percent in 1960 to 23.2 percent in 1964, revenues in those years had fallen from 23.3 percent to 18.8 percent (Maneschi 1972, p. 189).

It appears that the state deficits, in the phase of galloping inflation, were more a result of inflation than a cause, as government costs escalated while government revenues collapsed. Kahil's argument is that, when a threshold is passed, inflation acquires a force of its own. Causes can no longer be separated from effects. Inflationary policies become necessary reactions to an inflationary environment. As he wrote: "It is at this particular stage, when all prices are rising with increasing violence, that the Central Bank is compelled to supply the public sector with a growing volume of funds, while commercial banks are forced to expand loans to the private sector at an accelerated pace, and wages and salaries have to be raised again and again to restore the rapidly declining standard of living of workers and employees" (1973, p. 329).

Implicit in most of the writings that give priority to the study of inflation is the proposition that the slowing down of economic growth was the result of the uncontrolled inflation, due to increased instability, pricing distortions, etc. Opposite priorities suggest opposite lines of determination. Fishlow (in Stepan 1973) has argued that the cyclical pattern of growth, stagnation, and growth again is inherent in the process of import substitution independent of monetary fluctuations. Import substitution is a bunched process. Groups of industrial activities are introduced at the same time. There is an initial period of rapid growth that cannot be sustained as the limits of the domestic market are reached. There was a tendency to overbuild in the euphoria of the Kubitschek years, spurred on by government subsidies and competition. Drawing on the sociological theory of inflation, the slowing of growth of total output would reduce the effect such growth had of partially absorbing inflationary pressures. In a zero-sum situation, the gain of any group is a direct loss to the rest and the severity of the conflict escalates. The government, financially dependent on indirect taxes, finds its revenues falling while it is under pressure to maintain, if not increase, its expenditures to compensate for the falling private investment, to sustain production and employment. What allowed conflict to be mitigated in an expanding economy comes to create conflict in a situation of stagflation, as the income share of each group is eroded at such a pace that each is forced to organize and struggle just to maintain its position.

Overhanging the domestic economic problems of declining growth and increasing inflation in the early 1960s was an impending crisis of Brazil's foreign accounts. The continued vulnerability to import constraints of a strategy of import substitution industrialization has already been noted. Government policies to encourage industrialization also encourage imports; the more rapid the industrial growth, the more the needs of the economy press on the supply of foreign exchange. A brief review of Brazil's balance of payments in the postwar period underscores the persistence of potential crises of inadequate import capacity.

The only time Brazil had a large surplus of foreign exchange was in the immediate aftermath of World War II; a surplus that was dissipated in a little more than a year of unrestricted imports (Bergsman 1970, p. 28). From 1948 to 1954, even though the price of coffee rose by 236 percent, the growth of imports outran the earnings from exports and the resultant mounting trade deficits, covered by short-term credit, precipitated attempts to carry out a stabilization program. In the words of the finance minister brought into the cabinet in August 1953 to carry out deflationary policies, "Brazil had no choice but to 'keep to a prudent speed the rate of industrialization' while 'considering the relief or burden on the balance of payments'" (Skidmore 1967, p. 116).

After 1954 the world-wide boom in prices of primary products came to an end, and the price of coffee began to decline. While exports continued to grow in physical terms, the purchasing power of the exports stagnated.[17] Faced with such a situation, the government could take more stringent measures to reduce imports. But if the percentage of imports unnecessary for economic growth is already low, the cost of such a policy in terms of foregone growth would be high. A second option is to cover the trade deficit through an inflow of foreign capital, as direct private investment or loans; this was the policy of the Kubitschek administration. Special subsidies to foreign capital, which drew attacks from Brazilian industrialists—such as the infamous SUMOC Instruction 113 that enabled foreign firms to import capital equipment without having to buy foreign exchange, a privilege that saved up to a third of the cost of the imported good (Bergsman 1970, p. 74)—can be understood as attempts to maximize the importation of capital goods without using precious foreign exchange. Yet, not risk capital but massive foreign borrowing by the state was the heart of the Kubitschek policy; loans made up 80 percent of the inflow of foreign capital (Kahil 1973, p. 213). However, foreign borrowing only resolves the difficulties if it is invested in such a way as to produce the foreign exchange that will be needed in the future to repay the debt. As the investments were aimed at the domestic market, the impending BOP crisis was merely put off as long as the gain from the inflow of foreign capital was not overwhelmed by the outflow of foreign exchange for interest and amortization payments.[18]

States will only be granted loans if they are considered a good credit risk. And, of course, as states become increasingly dependent on foreign loans to keep afloat and to pay back previous loans, their credit rating falls. By 1958, the U.S. had begun to grow wary of Brazil's mounting debt and inflation, and made approval of a 300 million dollar loan, which was being sought by Kubitschek, contingent upon the approval of the International Monetary Fund (IMF). What the IMF demands is the intent to take what they consider to be reasonable measures to restore solvency, most importantly to restore an equilibrium of foreign transactions. Kubitschek discovered what Vargas before him and Quadros and Goulart after him were to discover, that pursuance of the IMF's recommendations for a reasonable length of time was tantamount to political suicide.

It is a mistake to see no logic other than malice in the IMF prescription, as Cheryl Payer (1974) rightly stresses. The foundation of the IMF orthodoxy is its commitment to the free flow of goods and capital across national borders. In the eyes of the founders, it was restrictive government policies that had brought about the collapse of trade in the Great Depression. Accordingly, at the center of the IMF program for debt-ridden states is the removal of import controls and exchange restrictions. But such controls are the primary means by which states such as Brazil had attempted to limit imports to that which could be covered by exports. It follows that the removal of controls will exacerbate the disequilibrium in the balance of payments. Therefore, it is necessary to include currency devaluation which, by lowering the price of exports and raising the price of imports, should eventually reequilibrate foreign trade. Yet, as long as inflation proceeds apace, and is, in fact, intensified by the increase in the cost of imports, devaluations will be rapidly undercut or will have to continue, one after the other, foreclosing the attainment of stability of exchange. Therefore, the program includes a bundle of anti-inflationary policies: reducing government deficits, reducing private credit, and reducing wages. Finally, as a means of temporary relief, the program includes measures to encourage the inflow of foreign capital.

Taken as a whole, in the view of the IMF, balance-of-payment crises and inflation are both the results of a nation living beyond its means, i.e., imports in greater volume than can be afforded, state spending beyond its revenues, and credit and wage increases beyond any real gains in the total product. The answer is just as simple: to reduce demand until an equilibrium is reestablished, especially in foreign transactions. To reduce demand is an antiseptic way of saying to reduce the real income of all sectors of Brazilian society in order to pay off foreign creditors, a program that is hardly likely to find much support among the populace. In fact, there was hardly any social group that did not oppose the implementation of a stabilization plan as there was hardly a social group whose income was not threatened. Workers would fight to protect real wages and employment. Capitalists would fight to protect access to credit. Coffee growers would fight to protect coffee subsidies. The military would fight to protect its accustomed share.

Making the implementation of a stabilization plan even more difficult is that its beneficial effects take a relatively long time to appear (it took the military regime three years of economic stagnation to bring the inflation rate down to 20 percent). Meanwhile, the detrimental effects are immediate and pervasive. The ending of import subsidies for wheat and oil would cause an immediate jump in the price of such basic commodities as bread and bus fares at the very moment that the government is attempting to hold down wages. Devaluation would increase the price of all imported goods, adding further to the inflationary spiral. The restriction of credit produces an immediate reduction of production and employment. As reported by the Getulio Vargas Foundation: "Immediately after the three-year plan [Goulart's proposed stabilization plan] was announced, the demand for workers fell heavily" (*Conjuntura Econômica*, Feb. 1964, p. 36). All the while, the pressures to abandon parts of the program grow as resistance to the government increases. Subsidies are allowed to creep back to relieve the pressure for higher wages. An easing of credit brings about the resurgence of production, even in an already highly inflationary environment.

This is the scenario that was faced by every government of Brazil from 1959 to 1964. Kubitschek, nearing the end of his term and prevented by law from running for reelection, broke off negotiations with the IMF rather than implement such an unpopular policy. The consequence was to lose access to international credit except for the short-term, high-cost private loans to which he turned. Such a solution left his successor, Quadros, with obligations falling due that were impossible to meet. As Quadros spoke in his inaugural address, "We have spent, drawing on our future to a greater extent than the imagination dares to contemplate" (Skidmore 1967, p. 194). Newly installed in the presidency, Quadros embarked on the course urged by the IMF. He drastically dismantled and liberalized the exchange rate system and devalued the currency by 100 percent. Approval from the IMF was forthcoming and Quadros received immediate relief, new credit and a refinancing of the loans falling due. How long Quadros would have been able to stick to the IMF program is not clear, but the adherence of the government did not survive the abrupt resignation of Quadros eight months after assuming office.

In the subsequent political crisis and compromise in which Goulart was allowed to assume the office of president with a parliamentary system of government, economic policy drifted without direction. When Goulart gained full presidential power in January 1963, he too was forced to turn his attention to the rising inflation, slowing economic growth, and a foreign debt beyond the country's capacity to repay, largely consisting of short-term notes falling due in the immediate future. In spite of an improvement in the current account due to a rise in the price of coffee, debt repayment would have taken 45 percent of Brazil's export earnings in 1964 (Payer 1974, p. 152). The situation was described by the deputy U.S. coördinator of the Alliance for Progress in a report on the aid that was eventually given to the newly installed military regime:

> In 1964 the Brazilian government foreign exchange reserves were depleted. In fact, they had 300 million dollars of current bills, not loans, not credit, but current bills unpaid, mainly to U.S. companies. So without this U.S. aid, without these programme loans, there would had to have been extreme belt-tightening on important imports. I am not talking about consumer goods, perfumes and racehorses and the like, I am talking about basic industrial raw materials which would have resulted in a severe recession. They would have had no option; otherwise their international credit rating would have been ruined. (Payer 1974, p. 156)

In January 1963, Goulart introduced the Dantas-Furtado plan, which attempted to combine a program of reforms, especially reforms of taxation and of land distribution, with restrictive macroeconomic policies designed to gain the approval of the IMF and immediate aid from the U.S. The Dantas-Furtado plan was to be the last attempt of a civilian regime to carry out a stabilization program as well as the last attempt to maintain a centrist political strategy that would rest upon a multi-class coalition. The U.S. and the IMF remained skeptical. Aid to Brazil was made contingent upon the performance of the government in implementing the stabilization policies. An upcoming salary readjustment for civil servants and the military became, for the IMF, the critical test. Dantas, the minister of finance, had promised the IMF that the raise would be no more than 40 percent. But Goulart did not have the political support to resist the pressure to break the promise, especially the pressure for a 70 percent increase from the group Goulart could hardly afford to antagonize: the officer corps of the military. The result was a veto by the IMF on any further refinancing of Brazil's short-term debt. In June 1963, Goulart changed his cabinet, replacing Dantas as finance minister, and the stabilization plan that had gained the support of no social group was abandoned. Nine months later Goulart was overthrown, democratic politics were suppressed, and the stabilization plan, shorn of all its reforms, was imposed by force.

If it is easy to understand why no government responsive to popular pressure could maintain for long policies that had no support from any social group and, on the contrary, threatened the interests of all, albeit not equally, it becomes difficult to understand the failure of a popular coalition to coalesce in opposition to the IMF. It is my contention that underlying the political polarization in the Goulart years was a polarization of economic policy options. The normalization of foreign transactions depended upon the following of the IMF guidelines. It was thus supported by international capital as a whole, not just by the U.S. government and other creditors. Foreign subsidiaries in Brazil had not been unduly hurt by inflation, according to the survey conducted by Gordon and Grommers (1962), but they did fear curtailment of their freedom to move goods and capital across the border. And they, alone in Brazil, would be relatively unaffected by a rigorous application of a stabilization program, not being dependent on local sources of credit. In addition, multinational firms would find natural allies among the large number of Brazilian firms with whom they had commercial and financial ties. While such satellite industries would be certainly hurt by the restriction of credit, they also had a major stake in the maintenance of "free" foreign transactions and would not favor a break with foreign capital.

On the other side there was the option of debt repudiation. Outright repudiation would court retaliation and disruptions of trade and would only be feasible if Brazil could suddenly shift to autarchic development. But the consequences of partial and temporary debt repudiation are more difficult to predict. Two aspects are important. The first is the current account—Brazil's ability to satisfy current minimum import needs with current export earnings; in 1964, with the price of coffee beginning to rise again, the current account was improving. The second is how Brazil's international creditors and trading partners would have responded. Even a partial and temporary debt repudiation would impose the need for far more direct controls on foreign transactions. As trade credits would certainly be eliminated, it would necessitate making do with less imports and a turn toward greater self-reliance. Such a transition may perhaps have been beneficial in the long run for the Brazilian economy, but it surely would have entailed a period of austerity in the short run. Austerity for the sake of nationalism would have been easier to sell the working class than austerity for the sake of foreign capital. But "going it alone," which would have been a clear victory for the left, could hardly have united the interests of the local dominant classes as well, faced with an insurgent working class and peasantry they had no assurance of being able to control in the future. Further, the burden of austerity under the guidelines of the IMF would certainly be placed on the shoulders of the working class to a far greater extent than the austerity of a nationalist-leftist regime in a period of confrontation with international capital.

This analysis would indicate that the most important change in the economy as import substitution advances, in regard to political rule, is not the development of heavy industry, or competitive manufactured exports, or the predominance of consumer durables, but the internationalization of the local economy. The initial stage of import substitution in the 1930s and the 1940s was accompanied by a disinvestment of foreign capital throughout Latin America. By the 1950s, with the tremendous expansion of the world economy, measures to encourage import substitution by erecting tariff and exchange barriers had the effect of pushing foreign producers to establish local subsidiaries, rather than encouraging local capitalists to supplant foreign ones. Kubitschek's economic policy was one of explicitly encouraging direct foreign investment and the establishment of linkages between local and foreign enterprises. As the links between the local economy and the world economy increase, it becomes increasingly costly to disrupt them. On the one hand, BOP disequilibrium and the periodic imposition of stabilization plans are inherent in such development. On the other, the option of debt repudiation, of "going it alone," even partially, requires an increasingly drastic reorganization of the national economy. When Vargas repudiated Brazil's foreign debts in 1938, the consequences were minimal in comparison to what the consequences would have been of debt repudiation in 1964.

This analysis would also indicate that the roots of the crisis lay, not in the economic policies of the Goulart administration, but in the economic policies of the Kubitschek administration. Kubitschek sought to maximize both short-term economic growth and political support under the constraint of a deteriorating balance of trade. His solution was to borrow abroad at a rate that could not be maintained for long. When, by 1958, Kubitschek was unable to obtain more long-term loans, he turned to short-term loans. It was a successful strategy of reaping the benefits and deferring the costs until someone else would be president. For Kubitschek's political popularity the strategy may have been optimal, but for his successors, caught between the IMF and national bankruptcy, it was disastrous.

In conclusion, the economic crisis, marked by decelerating growth, accelerating inflation, and the threat of national bankruptcy, destroyed the coalition of the urban working class and the dominant classes which, since 1950, had dominated Brazilian politics. The coalition was destroyed because there existed no centrist policy that could reduce inflation and settle with foreign creditors and also maintain the political support of both groups. The maintenance of the political center was foreclosed by the nature of the economic crisis. It was economically possible for the government to veer to the right and implement the IMF-sponsored stabilization plan. It was also economically possible to the government to veer to the left, control prices and foreign transactions, and go into default. But around neither alternative could the necessary political support be created.

The left, with Goulart's belated backing, sought to overcome the impasse through political reforms, most importantly the enfranchisement of the peasantry and the rank and file of the armed forces, which would have reshaped the balance of power within the democratic regime. The right saw its salvation to lie in the expeditious use of force. But the use of force acquires a staying power of its own, as the last fifteen years of Brazilian history illustrate.

NOTES

1. Galeano (1969) reported on the findings of a special commission formed by the Brazilian congress, before it was dissolved by the military in 1968, to examine denationalization of Brazilian industry. Local capital was paying up to seven times the interest rates paid by foreign capital. Many local firms that were unable to meet their payments abroad for licenses, patents, etc., gave equity shares instead.
2. As Barnet and Müller wrote:

> The 1971 Patent Law is the toughest and most sophisticated piece of legislation in the hemisphere for controlling the transfer of technology. (For more than ten years Brazil has led the fight in the United Nations against the stranglehold that the patent system poses for the technological development of poor countries.) A 1972 measure bars further entry into the Brazilian economy of foreign commercial banks, encourages the merger and strengthening of Brazilian banks—all designed, in the words of Finance Minister Delfim Netto, "to give a larger operational scope to the Brazilian economy." The following year Brazil passed a law creating huge trading corporations along the Japanese model which will help to ensure that Brazil does not overpay for imports or underprice its exports. Other measures that force global corporations to conduct more of their research-and-development activities inside Brazil, encourage competitive bidding and

> diversification of financing sources and trading partners, and limit the repatriation of profits all form part of an emerging pattern of economic self-protection which will change bargaining relations between the global companies and the generals. (1974, p. 192)

3. O'Donnell's thesis (and its change over time) can be found in publication in 1972, 1975 and 1977. It has inspired a batch of recent work by Kaufman (1977), Collier (1977) and Hirschman (1977), which has added modifications, elaborations, and criticisms.
4. For a classic statement of the theory of bottlenecks inherent in import substitution industrialization, see Tavares (1964). For a classic criticism of this theory see Hirschman (1968). Baer (1972) has a good summary of the literature and bibliography on import substitution industrialization. O'Donnell clearly also stands on the shoulders of the dependency theorists. Perhaps the most influential work was written by Cardoso and Faletto (1969). Furtado (1965), Weffort (1965a, 1968), Nun (1967), Jaguaribe (1965) and Dos Santos (1968a, b) contain similar analyses of portions of O'Donnell's argument.
5. For other studies of the 1968–74 boom, which emphasize both the expansion of manufactured exports and the expansion of credit for consumer durables, see Bacha (1977) and Malan and Bonelli (1977).
6. I am indebted to Jon Elster for clarifying my thinking on this point. For his criticism of functionalism, see Elster (1979).
7. There are passages in Marx's work, in particular the chapter on the political struggle over the length of the working day in volume 1 of *Capital* and in *Value, Price and Profit*, where Marx states that only the limits of the distribution of income are determined; in between "an immense scale of variations is possible. The fixation of its actual degree is only settled by the continuous struggle between capital and labour" (1935, p. 58). Nevertheless, Marx believed that, in the long run, the rising organic composition of capital and, hence, the decreasing utilization of living labor would create an ever larger industrial reserve army of the unemployed that would push wages to a minimum subsistence level.
8. A seminal study that emphasizes the importance of the corporatist system in Brazil is Schmitter (1971). For studies on the legal and political structure of the trade unions prior to the 1964 coup, see L. M. Rodrigues (1966) and J. A. Rodrigues (1968).
9. The single best book on the political history of the period is Skidmore (1967). Dulles (1970) is also useful for the last decade. The most detailed account in English of labor history for these years is Harding (1973).
10. For the most convincing analysis of populism and the political role of the urban popular classes, see the writings of Weffort (especially 1965a, b, and 1968). Soares (1971) contains a good description of the rural bias of the legislature.
11. This was true of the illegal but influential Partido Comunista Brasileiro no less than of the legal working class party, the Partido Trabalhista Brasileiro. See Chilcote (1974).
12. Between 1940 and 1950 the total population increased by 26 percent, the urban population increased by 39 percent, and manufacturing employment increased by 41 percent. Between 1950 and 1960 the total population increased by 37 percent, the urban population increased by 54 percent, while manufacturing employment increased by only 29 percent (Ackerman 1971, p. 27). The following quote on the pattern of industrial growth in the 1930s from an unpublished manuscript by Fishlow corroborates Cardoso's formulation for the earlier period:

    > Industrial output increased as rapidly as it did, then, not by large increments to capacity but by increased utilization. Factories reporting 24-hour shifts were not uncommon, and the industrial labor force was elastic to the demand. The São Paulo industrial censuses report average annual increments of production workers of an astonishing 10.4 percent a year between 1932 and 1937. . . . There was a massive transfer of labor from agriculture to industry although labor costs as a proportion of value added increased little and real wages declined slightly. (n.d., pp. 22–23).

13. I do not think this difference in the data is due to regional differences in the behavior of wages in Guanabara and São Paulo. Official figures for the real median wage in São Paulo between 1955 and 1958 are almost identical to the figures for Guanabara (Kahil 1973, p. 68). The minimum wage for São Paulo was slightly less than for Rio de Janeiro until January of 1963. Since then they have been the same (*Anuario Estatístico* 1965, p. 320).
14. For the aggregation of wages, I used weights calculated on the basis of labor shares in 1965 presented by Morley and Smith (in Stepan 1973, p. 136). For the aggregation of profits, I used weights calculated from profit shares in 1965 contained in the same article (p. 136). The results of such a procedure are disproportionately influenced, in the early years, by those sectors that grew the fastest between 1952 and 1965.
15. The data on profits for the last several years partly reflect the failure of the reporting firms to reevaluate their assets at the same speed as inflation was increasing the nominal value of their profits. This practice was revealed in the following cautionary note in *Conjuntura Econômica*: "The fact of the book accounts relating to fixed assets having been altered from their historical figures to the actual, as a result of the compulsory reappraisals, allows us, for the first time in many years, to verify the true proportions of the various indexes resulting from an analysis of the balance-sheets" (1966, p. 116).
16. Malan and Bonelli (1977) and Bacha (1977) are recent works that emphasize the cyclical character of postwar Brazilian economic growth.
17. See Kahil 1973, p. 198, for a table showing the purchasing power of exports and import capacity, 1947–1963.
18. Leff (1968) sees import constraints due to the lack of adequate exports, imposing periodic recessions on the economy that enable an equilibrium of foreign transactions to be reestablished, to be the cause of the cyclical growth pattern of the Brazilian economy. Because he concentrates entirely on export earnings, however, his argument neglects the financial and political relations of Brazil with its international creditors, relations that are far more volatile and that can make or break Brazil's ability to cover its need for foreign exchange.

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