

**ABSTRACT:** The Brazilian Economic Thought (1945-1964) - the ideological cycle of developmentism (by Ricardo Bielschowsky)

This work contains an exposition and analysis of Brazilian economic thought as found in books, specialized periodicals in the field of economics, and governmental writings between 1945 and 1964. A systematization of that thought is offered along with a reproduction of the debates held between the distinct currents of economic thought within the country.

The economic thought covered herein has been politically engaged in the discussion of the Brazilian process of industrialization. The key organizing concept that gives unity to our account is that of "developmentalism", seen as the ideology of transforming Brazilian society through an economic project of state-supported industrialization as a way to overcome underdevelopment.

In the introductory section and serving as a link between economic theory and Brazilian thinking, an exposition is made of the basic elements of ECLA'S analysis, which served as the major theoretical support to the opposition to liberalism in Brazil.

The main body of the work is divided into two parts. In Part I a description is made of the essential features of the five major currents of thought found in the period covered by this study, i.e., three variables of developmentalism (private sector, "non-nationalist" public sector, and "nationalist" public sector), neo-liberalism (to the "right" of developmentalism), and the socialist current (to its "left"). In each current of thought emphasis is given to the work of their most representative economists, with special reference to the thought of Eugênio Guidin, Roberto Simonsen, Roberto Campos and Celso Furtado. A chapter is added to cover Ignácio Rangel's thinking.

In Part II of the work an account is given of the evolution of the developmentalist controversy and an assessment is made of its historical determinants. For that purpose, a periodization has been selected on the basis of the movement of economic ideas. The key concept adopted, i.e. the idea of an "ideological cycle of developmentalism", as well as the entire organization of the text, aim to explain the historical significance of Brazilian economic thought in its connections with the movement of Brazilian history itself.





BRAZILIAN ECONOMIC THOUGHT (1945-1964) -  
THE IDEOLOGICAL CYCLE OF DEVELOPMENTALISM

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Thesis submitted to the University of Leicester for the degree of PHD, in  
June 1985, under the supervision of Leo Katzen.

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*To Idna  
and my parents*



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## TABLE OF CONTENTS

<i>Abstract</i> .....	ii
<i>Acknowledgements</i> .....	iii
 <b>I. <u>GENERAL INTRODUCTION</u></b>	
1. <u>Objectives and Methodology</u> .....	1
2. <u>Some Basic Characteristics of the Analytical Framework</u>	
<u>Underlying the Brazilian Economic Debate</u>	
2.1. Introduction .....	10
2.2. Anti-liberal Arguments for Industrialization in Under- developed Countries (and their Use by ECLA and in Brazil).	13
2.3. The Latin-American Analytical Choice of the Fifties: The Prebisch/ECLA Theory of Peripheral Development .....	17
2.4. Conclusion .....	40
 <b>II. <u>PART I: THE TRENDS OF ECONOMIC THOUGHT IN BRAZIL - 1945/1964</u></b>	
1. <u>Introduction: Developmentalism, Neo-liberalism, and Socialism..</u>	42
1.1. The Neo-liberal Current .....	42
1.2. Three Developmentalist Currents .....	42
1.3. The Socialist Current .....	43
2. <u>Neo-liberal Thought</u> .....	44
2.1. Introduction: The Gudin-Bulhões Team .....	44
2.2. Eugênio Gudin's Thought .....	49
a) Introduction .....	49
b) Characteristic features of Gudin's theoretical po- sition .....	53
c) The analysis of underdeveloped economies .....	59
d) Gudin's views regarding Brazilian development .....	71
3. <u>Developmentalist Thought</u> .....	106
3.1. Introduction .....	106
3.2. The Developmentalist Current in the Private Sector .....	108
i. Introduction .....	108
ii. Roberto Simonsen's pioneering developmentalism .....	112
iii. CNI and the continuation of arguments in favor of planned industrialization .....	124
iv. Private sector developmentalism and the interests of private industrial accumulation .....	127

3.3. The Public Sector: Non-Nationalist Developmentalism .....	143
i. Introduction .....	143.....
ii. Roberto Campos's thought .....	146
a) The defense of industrialization .....	152
b) The defense of planning .....	153
c) Sectorial planning, growth points and bottle-necks .....	156
d) The interpretation of the growth process .....	159
e) Campos's views on the questions of inflation and foreign disequilibrium .....	164
f) The views about foreign capital and state enterprises .....	172
g) Other basic features .....	177
3.4. The Public Sector: Nationalist Developmentalism .....	180
i. Introduction .....	180
ii. Celso Furtado's thought .....	187
a) Introduction .....	187
b) Furtado's analytical orientation .....	190
c) Furtado and the distinctive characteristics of Brazilian nationalist developmentalist thought ...	209
iii. Appendix: The masterpiece of Brazilian structuralism: <u>Formação Econômica do Brasil</u> .....	233
4. <u>Socialist Thought</u> .....	257
4.1. Introduction: The Politics of the Brazilian Communist Party as a Determinant of Economic Analysis .....	257
4.2. The Problem of Imperialism, or "Foreign Capital" and Related Economic Questions .....	279
4.3. The Agrarian Question .....	289
4.4. Final Considerations .....	297
5. <u>Ignácio Rangel's Independent Thought</u> .....	299
5.1. Introduction .....	299
5.2. The Theory of Economic Development .....	302
5.3. State Control over Foreign Trade and Planning .....	321
5.4. The Agrarian Question .....	330
5.5. Inflation and Crisis .....	336
5.6. The Historical Meaning of the Establishment of a National Financial System .....	344
6. <u>Summary Table of Brazilian Economic Thought (Active Currents in the Period 1945-1964)</u> .....	346
III. <u>PART II: THE EVOLUTION OF DEVELOPMENTALIST ECONOMIC THOUGHT (1930-1964) AND THE MATURATION OF DEVELOPMENTALISM (1945-1955)</u> .....	350
1. <u>Introduction: Developmentalism's Ideological Cycle — The Origins of Developmentalism (1930/1945)</u> .....	351



1.1. Methodology and Periodization: The Ideological Cycle of Developmentalism .....	351
1.2. Origins of Developmentalism (1930-1945) .....	352
2. <u>Economic Thought and the Maturation of Developmentalism</u> .....	370
2.1. Economic Thought in the Post-War Transition: Liberalism and the Developmentalist Resistance, 1945-1947 .....	370
2.2. Economic Thought and the Maturation of Developmentalism: 1948-1952 .....	455
2.3. Economic Thought in the Phase of Liberal Resurgence and Developmentalist Reaffirmation: 1953-1955 .....	528
3. <u>General Features of Economic Thought in the Boom and Crisis</u> Stages of Developmentalism (1956-1964) .....	586
3.1. The Boom Phase .....	586
3.2. The Crisis .....	598
IV. <u>SUMMARY AND CONCLUSIONS</u> .....	634
By Way of Conclusion: Summary and Final Remarks .....	635
<i>List of Abbreviations</i> .....	641
<i>Bibliography:</i>	
a) <i>Periodicals</i> .....	643
b) <i>Articles, Books and Documents</i> .....	644

## I. GENERAL INTRODUCTION

## 1. Objectives and Methodology

The decades of 1940 and 1950 were the basic period of implementation of the Brazilian industrial system. A fast and profound division then occurred in national labor, by means of a process which introduced into and spread throughout a significant portion of the changing productive system a world-wide technological progress until then virtually confined within the limits of the country's foreign trade.

Historians' natural preference for periods at which "qualitative leaps" take place, added to the fact that knowledge about those decades is crucial for understanding the complexities of Brazilian society in the late twentieth century, have drawn the attention of a considerable number of historians to that period, each devoting himself to widely variable features of Brazilian economic, political and social evolution. Even so, the period's historiography shows a number of gaps. This study aims to bridge one of those gaps, i.e., that of studying the evolution of economists' and other intellectuals' thinking in regard to the country's economy at that time.<sup>1</sup>

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(1) See Magalhães, J.P.A., A controvérsia brasileira sobre o desenvolvimento econômico: uma reformulação, Rio de Janeiro, Gráfica Record Edit., 1964; Magalhaes, J.P.A., O pensamento econômico brasileiro após a II Guerra Mundial, Rio de Janeiro, Instituto Oswaldo Lodi, 1981, mimeo; Ferreira Lima, H., Maia e Roberto Simonsen, São Paulo, Edit. Edaglit, 1963; Fallangliello, H., Roberto Simonsen e o pensamento econômico, thesis submitted to F.E.A., Universidade do Estado de São Paulo, 1972, mimeo; Chagas Cruz, P.D., Ignácio Rangel, um pioneiro, M.Sc. thesis submitted to I.F.C.H., Universidade de Campinas, Campinas, 1980, mimeo; Carvalho, F.O.C., Agricultura e questão agrária no desenvolvimento econômico brasileiro (1950/1970), M.Sc. dissertation submitted to I.F.C.H., Universidade de Campinas, Campinas, 1978, mimeo. This brief list has been recently extended with the inclusion of introductory chapters to two selections of texts by Caio Prado Jr. and Celso Furtado, viz., Francisco Iglesias (ed.), Caio Prado Jr., São Paulo, Ática, 1982, and Francisco de Oliveira (ed.), Celso Furtado, São Paulo, Ática, 1983. Still more recently, the first in-depth work has been published on the subject, viz., Guido Mantega's A economia política brasileira, São Paulo, Polis/Vozes, 1984. However, its author made only a few incursions into non-Marxian economic thought in the fifties and early sixties, having preferred to concentrate on Marxian thought in the decade of 1960 as a whole.

Our work consists in gathering, systematizing and assessing the extensive economic literature of the period 1945-1964, as published in the form of books, economic periodicals, and governmental documents of great impact in their day. The material adds up to tens of thousands of pages and is a challenge to any effort at synthesis, specially if one seeks comprehensiveness and intelligibility.

In addition to the problem of the volume of material for perusal, we have been faced with a difficulty concerning the unavailability of a ready-made methodology for carrying out the proposed study, which compelled us to develop an approach of our own. In the following paragraphs we shall offer some brief remarks on the object of our work and the methodological approach adopted.

Schumpeter, in one of the introductory chapters to his monumental History of Economic Analysis, distinguishes his object of study (the history of economic analysis) from two other objects, i.e., (a) the History of Systems of Political Economy, each system seen as "an exposition of a comprehensive set of economic policies that its author advocates on the strength of certain unifying (normative) principles, such as the principles of economic liberalism, of socialism, and so on",<sup>2</sup> and (b) the History of Economic Thought, defined as "the sum total of all the opinions and desires concerning economic subjects, specially concerning public policy bearing upon those subjects that, at any given time and place, float in the public mind".<sup>3</sup> Schumpeter, like most historians of economic science, was concerned in his book with the last two approaches only as accessory elements which, in portraying the historical and ideological background of the different contexts of theoretical creation, may eventually — but not necessarily — give support to an account of the evolution of economic analysis.

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(2) Schumpeter, T.A., History of economic analysis, Boston, George Allen and Unwin, p. 38.

(3) Ibid.

Any study of Brazilian economic thought in the period 1945-1964 cannot but follow an opposite direction. There is no point, in this case, in making a history of Brazilian analytical production in the field of economic science. That production, apart from its scarcity, was in essence a mere development of the only Latin American analytical production of any momentum in the period, i.e., ECLA's work, which has been widely assessed by now. Quite obviously, any reflexion on economics includes an analytical dimension, and our study would be incomplete should we fail to identify it. Our interest in identifying it, however, springs solely from the need to systematize the arguments applied to the economic process and the actual economic policies prevailing in that period. It features, therefore, as an ancillary element in understanding a non-theoretical debate whose content is historically determined down to its minimum details. For this reason, the historical dimension of economic thought, and not its analytical content, has needs become the central axis of our study. The work consists, so to speak, in a special combined case of what Schumpeter has termed "history of systems of political economy" and "history of economic thought". In the first place, the core of the economic thought under examination is a "developmentalist system" that engendered, on the one hand, ECLA's analytical framework, and on the other, the arguments favoring developmentalist policies. Secondly, although most authors of the literature under examination are economists — a group of people with more highly elaborate ideas than the "public mind" referred to by Schumpeter — so marked was their lack of academic commitment in the Brazilian developmentalist debate that, at certain points, this thesis comes closer to being a mere "history of economic thought" in Schumpeter's sense of the term.

In fact, it is easy to understand why Brazilian economic thought has not been structured within academic theoretical circles. Not only were there few and low-quality graduation courses in economics in Brazil, but they also seemed devoid of any well-defined theoretical orientation. An excellent in-



dication of the amateurish quality of centers for study in economics then prevailing in Brazil is that, up to the 1960s, not one of them had a full-time faculty. Furthermore, the first post-graduation course would be inaugurated only in the mid-sixties at the Getúlio Vargas Foundation (FGV). Prior to that time, all one could find were specialization courses in economic planning, organized by ECLA in cooperation with Brazil's National Bank for Economic Development (BNDE).

For the above reasons, the strands of economic thought discussed in this work have not been associated to academic theoretical groups. The fact that the Gudin-Bulhões team — which led Brazilian neo-liberal thought through FVG — lectured for students at Universidade do Brasil, in Rio de Janeiro, is of little significance: Gudin, Bulhões and their followers were not theoretical economists, nor did they ever devote their full time to teaching activities, in view of which they never did create any "theoretical school" in Brazil.

Economic thought as covered by us was politically engaged in the discussions about the Brazilian industrialization process. The key concept both organizing and giving unity to our account is "developmentalism". By developmentalism we mean, in this work, the ideology of Brazilian society's transformation as defined by an economic project made up of the following basic tenets:

1. Full industrialization is the way to overcome Brazilian poverty and underdevelopment;
2. No efficient and rational industrialization can be attained on the strength of spontaneous market forces, it therefore being necessary for the state to plan it;
3. Planning must specify the desired expansion of economic sectors, as well as the instruments for promoting that expansion;
4. The state must also administrate the execution of expansion plans by obtaining and allocating financial resources, as well as promoting

direct investments in those sectors where private initiative should prove insufficient.

The main body of this work has been divided into two parts. Part I describes the characteristics of the five major currents of thought prevailing in the period covered by this thesis, viz., three variants of developmentalism (private sector, "non-nationalist" public sector, and "nationalist" public sector), neo-liberalism (to the "right" of developmentalism), and the socialist strand (to its "left"). Concerning each strand of thought, emphasis is given to the work of its most representative economists, with special regard to the thought developed by Eugênio Gudín, Roberto Simonsen, Roberto Campos, and Celso Furtado. A separate chapter has been included to deal with the ideas developed by Ignácio Rangel, an author who, thanks to his independence, cannot be classed within any of the major currents. Rangel was a socialist thinker who, from the vantage point of "political tactics", approached the nationalist developmentalist strand, but who, from the analytical point of view and with regard to actual economic policy proposals, was altogether independent.

Part I therefore presents a reasonably extensive mapping of the conceptual frame of Brazilian economic thought. This mapping is, for the moment, a still picture of that thought. It presents the main conceptual questions that are the concern of a historiographer of ideas, but lacks the history of their emergence. In short, it lacks an account of the evolution of the developmentalist controversy and an assessment of the historical determinants of that evolution. All of this is to be found in Part II of this work. There we make an attempt, for instance, to hierarchize the relative importance of each of the topics brought up in the economic debate of those days, according to the various economic and political conjunctures the country lived through in the period under study. For that purpose, a division into periods has been effected on the basis of the movement of economic ideas. The key concept adopted, i.e., the idea of an "ideological cycle in developmentalism",

as well as the entire organization of the text, aim to offer an account of the historical meaning of Brazilian economic thought as linked to the movement of Brazilian history itself.

Some words of warning are in order. First, this is not a study about the economic ideologies of Brazilian social classes. In this sense, all we aim at is to make a rather marginal contribution through an assessment of economic thought such as published in specialized periodicals like the journals issued by the National Confederation of Industries or Brazilian Commercial Associations. The gap between the lines of thought broadcast by leading associations and the ideology of the set of social classes represented by them is a subject calling for extensive investigation, which has not been undertaken within the scope of this research.

A second point worth stressing is that this research fits strictly into the perspective of an "intellectual history", thus representing no investigation into economic history or political history. We must also note that there is no intention of explaining actual history on the strength of the history of ideas. Instead, we offer a survey of actual history on the basis of the literature available, so as to determine its influence on economic thought.

Moreover, as this is not a research into actual history as such, this work does not purport to determine "who was right" in the various controversies around basic issues in political economy in those days. Our purpose is merely to pursue the rationale of the economic views held by the various authors and strands of thought then in existence, pointing out their main features, their occasional inconsistencies, their highlights of creativity, and so on.

The search for that rationale has been based on a systematization of the characteristics of economic thought according to the two major dimensions previously indicated, i.e., the historical and the analytical ones. Concerning the former, the procedure adopted is that of avoiding any approach that might enhance the study of the ideological content of economic thought, which

is the object of merely accessory considerations. This criterion bears upon the fact that the conceptual rigor required for covering that question would belong more properly in the areas of philosophy or sociology than in the present author's field of specialization. The historical dimension of economic thought is dealt with through an appreciation of its political content. The latter, in turn, focuses on each author's stance regarding the major political economy issues in those days, i.e., the problems of industrialization, planning, state and foreign capital, income distribution, land reform, and so forth. The adoption of such procedure may give rise to criticisms to the effect that the political content should rather be searched for in the authors' political activities within political parties and the state's political and administrative machinery. This has not been done for several reasons. First, the links between economists and political parties were rather loose, except in the case of socialist economists. Second, the study of the insertion of technical experts into Brazilian governmental institutions in those days spans over an entire field of investigations that are quite distinct from the concerns of the present study. Therefore, the question cannot be examined at an in-depth level beyond that allowed by the scarce literature available on the subject. Third, the treatment we did adopt is sufficient to assure an adequate level of comprehensiveness and is perhaps the one allowing for the best systematization of Brazilian economic thought.

As for the analytical dimension, our main effort centered around overcoming the difficulty posed by the fact that, in those days, economic thought was born from a context in which, as formerly stated, there was only a loose commitment with academic life. Our efforts were facilitated by the fact that, at the analytical level, the two major competing approaches were neo-liberalism, whose Brazilian leader was Eugênio Gudin, and Prebisch/ECLA's theory of economic development. To pave the conceptual ground that should allow a fluent analysis of Brazilian economic thought, we shall now present

a chapter introducing the main body of this work, in an attempt to establish a connection between economic theory and Brazilian thought. This will be done by means of a description of the basic elements in ECLA's theory and a brief assessment of their theoretical meaning.

2. Some Basic Characteristics of the Analytical Framework  
underlying the Brazilian Economic Debate

## 2. Some Basic Characteristics of the Analytical Framework underlying the Brazilian Economic Debate

### 2.1. Introduction

The purpose of this chapter is to prepare the ground to detect the analytical content and theoretical affiliations of Brazilian economic thought. We shall draw a brief picture of the theoretical controversy which lies at the background of the Brazilian debate on economic development in the period we are concerned with. That picture will necessarily include a broad reference to the arguments used in the economics of development against liberal theories and policies, and must give special emphasis to Prebisch's and ECLA's writings.

It should be observed that this is an appropriate way to approach the analytical aspects of Brazilian economic thought, for, broadly speaking, the main disputes in the Brazilian case, as well as its main political stimuli, had basically the same nature as those found at the core of the economics of development, particularly in its ECLA branch. At both levels there was mainly a political proposition for underdeveloped countries, i.e., that of industrializing as a means to overcome poverty, of reducing the gap between them and rich countries, and of attaining real political independence through a self-sustained economic growth.<sup>1</sup>

The fundamental issue that lay in the core of the political and theoretical disputes regarding the future of underdeveloped countries was, in the forties and fifties, the question of the convenience of state intervention to establish a new pattern of growth.

The major attack against the dominant doctrine had as its target the

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(1) As a matter of fact, the Brazilian debate merged several times with the international one. Brazil was, of course, an important field of observation and action for the propositions that were at stake, specially in the case of the Prebisch/ECLA ideas. Brazil also had a suitable political environment to stimulate discussions, as attested, for instance, by visits made to the country by people like Nurkse, Prebisch, Singer, Kaldor, Viner, Haberler, and many others.

twin liberal principles of laissez-faire and free trade, i.e., of the efficiency of national and international resource allocation by market force mechanisms. This attack aimed to support governmental measures in general, and in particular the twin principles of planning and protectionism, which were seen as the means to reach efficient and quick industrialization and thus alter the course of history for LDCs.<sup>2</sup> In the specific case of the Latin American debate one also finds a second important set of disagreements directed against IMF policies. The "structuralist" approach consisted, as is well known, of unconventional explanations about the causes of inflation and balance of payment problems, which also envisaged support for heterodox policy measures to speed up the industrialization process.

Underdeveloped countries therefore became a new object for the old theoretical dispute between liberalism and state intervention. Needless to say, of course, the idea that the Keynesian revolution helped establish a rebellious theoretical climate against liberal doctrines cannot obscure the fact that the content of the theoretical confrontation which emerged in the economics of development is of a different nature from the one found in the controversies that are typical of advanced economies. They had in common the question of the effectiveness of market mechanisms to assure maximum national and international incomes. But heterodoxy concerning resource allocation in underdeveloped countries did not mean support to state intervention for an adequate use of idle savings, as in the Keynesian case. It meant rather a request for protectionism, planning, and other government measures as the means to industrialize and to maximize income out of scarce savings.

Our outline of the analytical background, which should help explain the theoretical content of Brazilian economic thought in the period 1945-64, is presented in two parts. First, we briefly list the anti-liberal arguments in favor of state intervention for LDCs' industrialization, and point out

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(2) LDCs is the current abbreviation for "less developed countries".



those which were used by ECLA and those used in Brazil (ECLA and non-ECLA arguments). In order to simplify our task, we avoid adding at this stage the precise references which confirm such cases and postpone them to the proper places in the various chapters of this thesis.

Second, we shall present in an orderly way the theoretical framework that has supported a considerable part of the nationalist analysis of Brazilian and Latin American economies, the Prebisch/ECLA theory of peripheral development.

Because of the rather unsystematic way in which Prebisch and the ECLA team presented their ideas, the unity and comprehensiveness of their economic thought has seldom been fully recognized, in spite of the enormous influence it has exercised on the Latin American intellectual environment in the last thirty years. ECLA's thought is mostly known for Prebisch's thesis on the terms of trade and for the structuralist interpretation of inflation, and not as an analytical framework for economic development. For our purpose of examining the particular intellectual context of the Brazilian debate, it is indeed necessary to give an outline of the Prebisch/ECLA theory as a whole. This will allow us to bring together the various ECLA anti-orthodox arguments, which might otherwise appear to be isolated ideas, and to show that ECLA's view is wider than their mere sum. That outline is also necessary because during the fifties and early sixties the ECLA model was used to interpret the process of change in Latin American economies, and also because, once the economists of the continent realized, in the early sixties, that the ECLA period of "import substitution" was over and that the economies were falling into a period of recession, ECLA thought began to be disputed by Latin American economists.<sup>3</sup>

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(3) There have been two basic arguments in Latin America against the Prebisch/ECLA thought since the early sixties. First, that it does not take into account the "endogenous determinants of growth". Second, it is said to have omitted the two basic contradictions which the industrialization process itself was not able to suppress, viz., class struggle (and economic inequalities) and imperialism. (Or, in a more comprehensive way,

## 2.2. Anti-liberal Arguments for Industrialization in Underdeveloped Countries (and their Use by ECLA and in Brazil)

The anti-liberal objective of re-directing investments from export activities into the industry and of doing so in an efficient way brought to those economists who supported industrialization a hard task to accomplish. They had to face, on the theoretical front, the long-established market force theories, and had to produce strong arguments to support the idea that market mechanism inducement to enhance export activities was a misleading force that led the economy away from the maximum possible income and growth promised by those theories. The two major battlefronts of this theoretical dispute against liberalism were, of course, planning and protectionism, but other measures such as governmental credit support and direct state investments were also at stake.

Quite a long list of strong arguments in support of heterodox policies have been either produced or used in the economics of development. Needless to say, such arguments do not all stand at the same analytical level, nor do they refer to the same theoretical frameworks. There has been confusion and uncertainty as to the analytical framework that should serve as a reference for debates about underdevelopment. A theoretical discussion of this issue would needs be very long and distract us from our main concern. Therefore, for the sake of shortness and simplicity, we shall avoid it and go directly into what matters for us. Let us start by presenting that list of arguments and pointing out those that were used by ECLA and those which were used in Brazil:

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it has also been said that the Prebisch/ECLA model does not examine the internal process of income distribution and capital accumulation, which necessarily involves the analysis of class struggle and imperialism). The fact that these criticisms are correct should not, however, be taken as a sufficiently strong reason to dismiss the theory's power, particularly in a period of theoretical barrenness such as were those early years, or to refute the analytical power that, despite these and other limitations, it did have.

Argument	Used by ECLA	Used by Brazilian economists
1. "Infant industry"	no	yes
2. "External economies"	marginally	yes
3. "Capital indivisibility"	marginally	no
4. "Deterioration in terms of trade" (Prebisch-Singer thesis)	yes	yes
5. "Unemployment/deterioration in terms of trade" (lack of international demand for LDCs' products — Engels's law, etc.)	yes	yes
6. "Structural disequilibrium in the balance of payments"	yes	yes
7. "Vulnerability to economic cycles"	yes	yes
8. "Inadequacy of modern techniques relative to resource availability"	yes	yes
9. "Transplantation of modern agricultural techniques into tropical cultures reduced as compared to transplantation of industrial techniques"	marginally	yes
10. Theory of derived growth (non-Schumpeterian growth or demand-induced growth, with industrial and social capital bias)	no	yes

Let us briefly go through our list. The infant-industry argument, the oldest of the ideas in favor of protectionism to have academic legitimacy, was used in Brazil mainly in industrialists' disputes up to the 1940s. Later on, the other protectionist arguments listed above, as well as the automatically protectionist exchange policies then enforced, have reduced its importance as a theoretical weapon to support protectionist policies.

The two most important arguments challenging the validity of static equilibrium theories to cope with investment problems, i.e., "external economies" and "capital indivisibility", were introduced into the discussions about LDCs mainly through Rosenstein-Rodan and Nurkse's balanced growth doctrine. The analytical context involving this doctrine, i.e., equilibrium theories, is the reason why it was not very popular among the theoretically independent minds of ECLA authors. The "external economies" argument enters their texts only marginally, by means of suggestions to use, in the planning

technique proposed by ECLA, social marginal productivity as the criterion for selecting investments. It was far more widely used in Brazil, especially in the early fifties. "Capital indivisibility", in turn, appears only in some foreign texts eventually published in Brazil.

The idea that static models cannot cope with the dynamic problems of resource allocation was used both by ECLA and in Brazil mainly in connection with the workings of international market mechanisms. Latin American and Brazilian economic literature is full of references to four of the effects of international commerce which static free trade theories alone do not allow one to recognize: (a) deterioration of the terms of trade (the Prebisch-Singer thesis);<sup>4</sup> (b) unemployment, which was seen as a result of the slow growth of international demand for primary products, in such a way as to lead to a deterioration in the terms of trade, in the event of unemployment being

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(4) The deterioration in the terms of trade represents the closing link in the twofold idea of an unequal spread of technical progress and unequal distribution of the benefits it produces. The Prebisch/Singer thesis starts by acknowledging the fact that productive forces in industrialized countries develop faster than in underdeveloped ones, because the primary activities on which the latter concentrate their resources offer a narrower scope for technical progress. There would still be a case for free trade, however, if the benefits of technical progress could be evenly distributed throughout the world by means of relative price movements. But the data on terms of trade at the time were showing precisely the opposite, or so the argument runs. Only in food and raw material production does increased productivity result mainly in reduced prices for the benefit of foreign consumers. In the case of manufactured goods, technical progress translates itself primarily into higher incomes, to the chief benefit of producers. Prebisch's explanation for this is that in the Center there are monopoly elements which do not allow productivity increases to result in lower prices, whereas in the Periphery, on the contrary, surplus labor puts continuous pressure on wage and price decreases, resulting in transfers of any productivity gains to the Center. Prebisch related this mechanism to the operation of the trade cycle. During the upswing, he said, primary prices increase more than industrial ones, but this is largely offset by what happens during downswings. Trade unions then manage to prevent wage reductions in the Center, but entrepreneurs are in a better position to safeguard their profits, compensating for wage rigidity by cutting the output, and not prices. The consequence for the Periphery is a decrease in the demand for their products, thereby pushing their prices down. The Center thus has the ability, "by virtue of the role it plays in production, to divert cyclical pressure to the periphery" (Prebisch, R., The economic development of Latin America and some of its principal problems, ECLA, 1949, p. 14). Singer's version of the thesis, written in the same year as Prebisch's, is to be found in "The distribution of gains between investing and

absorbed by primary activities;<sup>5</sup> (c) a structural disequilibrium in the balance of payments, i.e., the idea that external disequilibrium is not merely a result of inflation but may be independent from it, specially in underdeveloped economies undergoing fast industrialization (the only definitive solution being seen as industrialization itself); (d) vulnerability to economic cycles by those economies that specialize in export activities, i.e., that do not have a strong internal market sector.

"Unemployment" and "Vulnerability to economic cycles" are pre-ECLA ideas already in use in Brazil before the arrival of Prebisch's first texts. They were given a more systematic treatment by the Prebisch team, along with the two other ECLA arguments listed above. The "vulnerability" argument had a decreasing importance in the Brazilian economic debate in the fifties, whilst the other three arguments had increasing significance. A fifth and very common argument in Prebisch's and ECLA's texts which has also drawn the attention of Brazilian authors, specially Furtado, himself an important member of ECLA's original team, was the idea that the use of modern productive technologies should be carefully planned in LDCs given their inadequacy to

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borrowing countries", American Economic Review, Papers and Proceedings, vol. II, no. 2, May 1950.

- (5) There is a difference between the analytical part played by the hypothesis of unemployment in what is ordinarily called the Prebisch-Singer thesis and the part it plays in a second argument leading also to the conclusion of a deterioration in the terms of trade — and which, incidentally, was also used by both authors. In the Prebisch-Singer thesis the hypothesis of the existence of continuous surplus labor in the periphery is necessary to explain the downward pressure on wages and primary product prices, as opposed to what happens in the center, where technical progress is translated into higher incomes, and not into lower prices, thanks to trade unions and capital concentration in the industry. In the second argument, the hypothesis of labor surplus in the periphery plays a different analytical part. The idea is that it largely exceeds the labor required to produce the additional quantities of food and other primary products that can be placed in the international market without causing price reductions. This argument was used by Singer in his aforementioned text. Prebisch first used it in ECLA's "Economic Survey of Latin America", in 1950, still in very inelaborate form, and gradually gave it more elaborate formulations, as we shall see later ahead in this work.

the availability of internal resources.

The last two arguments in our list are non-ECLA ones, but were also widespread in Brazilian economic thought. First, one often finds the idea that industrialization allows tropical or sub-tropical countries to import more modern techniques than they would in case they stuck to specializing in agriculture. Second, there has also been a good acceptance of Wallich's thesis of derived demand, i.e., the idea that growth in underdeveloped countries is a result of pressure stemming from demand — a non-Schumpeterian, industrially biased process of growth calling for state intervention.

Apart from the widespread use of one or several of these heterodox arguments in Brazil, and more important than that, there was a broad diffusion of ECLA's general argument for planning and state intervention in favor of industrialization. Planning was seen as the inevitable procedure to rationalize the spontaneous and rather anarchic process of industrialization that suddenly started to take place in the backward productive structure of this continent's economies. That ECLA's theory of development has been the main anti-liberal analytical tool used in the Brazilian economic debate makes it necessary to go into a more careful consideration of this theory.

### 2.3. The Latin-American Analytical Choice of the Fifties:

#### The Prebisch/ECLA Theory of Peripheral Development

The unity and scope of the Prebisch/ECLA theory remained undisclosed for quite a long time. The difficult task of bringing together Prebisch's apparently disconnected ideas was performed in two stages by ECLA economists. The first one consisted of a collection of extracts from Prebisch's and ECLA's writings organized for that agency's twentieth anniversary celebration in 1968.<sup>6</sup> But the really definitive step in that direction was only taken much more recently by Octavio Rodriguez, in a comprehensive analysis

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(6) Published under the English title of Development problems in Latin America by the University of Texas Press, Austin, 1970.

of Prebisch's and ECLA's intellectual production.<sup>7</sup> We have made free use of Rodriguez's interpretation in this text to support our presentation of a synthesis of ECLA's theory of development or "peripheral" development.

We aim to make it clear in what follows that ECLA has not simply formulated protectionist proposals as a result of its thesis about a deterioration in the terms of trade, as is so often believed outside Latin America, but has rather provided a broad and original framework that has been a powerful instrument in understanding the real process of change in Latin American economies. Policy proposals stem naturally from the analysis, rather than preceding it.

Our summary will comprise seven points, which we now set out to ex-

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- (7) See his "Teorías de la CEPAL sobre el subdesarrollo", CEPAL/ILPES, two volumes, mimeo. A good summary of this work was provided by Rodriguez himself in his article "On the conception of the centre-periphery system", CEPAL Review, first half of 1977.

Rodriguez performed the task of putting together a number of partial analyses which seemed to have little connection among themselves and substantiated what was formerly just a feeling among Latin American intellectuals, i.e., the idea that ECLA had formulated an original theory about development.

To our general agreement with Rodriguez's interpretation we would add only two qualifications. First, he always refers to "ECLA's theory", and not to "Prebisch's theory". This attitude probably results from that agency's collective intellectual spirit, which acknowledges the contributions of economists like Celso Furtado, Regino Botti, Jorge Ahumada and others since the early stages of its work, besides acknowledging later contributions made by authors like Juan Noyola, Oswaldo Sunkel and Anibal Pinto with regard to the theory of inflation and various policy issues. But when one tries to identify a common source for the basic concepts employed, as well as for the agency's general approach to economic development, one finds that they were all contained in the early works written by Prebisch himself. Secondly, Rodriguez regards ECLA's thought as a theory of underdevelopment accounting for a process of change that perpetuates backwardness. This is indeed the impression one gathers from Prebisch's and ECLA's texts in the more "pessimistic" period of the early sixties. (The classical text of the period is Prebisch's "Towards a dynamic development policy for Latin America", United Nations Publication, Sales No. 64.11 G4). However, as far as the agency's earlier period is concerned, one does not find such pessimism, but rather a characterization of the problems that arise in the "new stage" of development of the periphery, which are related to its economic and social structures. It is a theory of problematic industrialization, outlined with the aim of introducing planning as a guiding principle, so as to ease the way to a faster and more balanced growth and to reach the level of development found in advanced economies.

pose.<sup>8</sup>

i. Characterization of underdevelopment as a condition of the "Periphery"

"Center-Periphery" is the fundamental concept in ECLA's theory. It is used to describe the diffusion process of technical progress in world economy and to explain the distribution of its gains. The international division of labor, from the early stages of industrial capitalism, according to this concept, has had two complementary effects on the economics of backward regions relative to developed ones.

First, technical progress has developed unevenly between the two poles. It has been faster in the Center's industrial sectors and, even more importantly, it has simultaneously raised the productivity of all sectors in central economies, providing a more or less homogeneous technical level in their productive systems. In the Periphery, which has had the function of supplying the Center with cheap foodstuffs and raw materials, technical progress has been introduced into the export sectors only. Export sectors appear there as islands of high productivity, in sharp contrast with the backwardness of the rest of the productive system.

The second effect is explained by means of the thesis of a deterioration in the terms of trade. This thesis is built up as a reply to the dominant Ricardian principle according to which it is possible to say that such uneven physical distribution of techniques is compensated for by the transfer of gains resulting from higher productivity by means of lower prices

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(8) The Prebisch/ECLA theory is basically contained in three early texts: Prebisch, R., The economic development of Latin America and some of its principal problems, op. cit., 1949; ECLA, "Growth, disequilibrium and disparities: interpretation of the process of economic development", in "Economic Survey of Latin America", 1949, op.cit. (published in 1950); and Prebisch, R., Theoretical and practical problems of economic growth, U.N., 1951 (revised edition published 1952). The other analytically relevant texts are: International co-operation in a Latin American development policy, U.N., 1954, and Prebisch, R., "Commercial policy of the under-developed countries", American Economic Review, Progress and Proceedings, May 1959.



— a transfer that is operated by market mechanisms, provided perfect competition prevails — so that it becomes immaterial to know where technical progress takes place, for the goods produced with the new techniques can be purchased in the international market with all the advantages introduced by improvements in productivity, i.e., lower costs and better quality.

The deterioration in the terms of trade destroys and reverses this argument, showing that not only the transfer of gains does not occur, but that it actually occurs in the opposite direction, i.e., from backward regions to developed ones.<sup>9</sup>

Therefore, the traditional international division of labor entails a growing disparity between richer and poorer countries, i.e., between the Center and the Periphery. The disparity is seen as worsened by the fact that the Center tends to reduce the expansion rate of primary product imports as technical progress goes on, so that the rate of growth in the Periphery tends to be increasingly slower than in the Center — which had not shown any remarkable figures in the preceding decades either.

## ii. Identification of a spontaneous industrialization process and basic historical significance attributed to it

The second fundamental idea in the Prebisch/ECLA theory is that there has been a change of direction in peripheral growth starting from the period of World War I, which has gained a decisive impulse in the world depression of the 1930s. Until then, growth had been "outward-directed" or "export-oriented". The changes in world economy — greater protectionism in the Center, lower income elasticity in the demand for primary products, decreasing import coefficients in the new cyclical Center, the U.S.A., and so on — were responsible for a spontaneous process of industrialization, which was set in

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(9) The two classical ECLA texts on the terms of trade are the first two works quoted in note 4 above. Rodriguez offers a careful analysis of the subject and an exhaustive bibliography about it. See his "Teorias de la CEPAL...", op. cit.

motion as a result of disequilibrium problems in the balance of payments. The deterioration in the terms of trade is only an extra element adding to this disequilibrium problem.

The new, inward-directed development has had a historical meaning not only for the Periphery but for the world at large: it is a new stage in the spread of technical progress. At this point, it is worthwhile making an extensive quotation of Prebisch's own opening words in the famous "Economic Survey of Latin America", dated 1949:

"The spread of technical progress from the countries where it had its source to the rest of the world has, from the point of view of each generation, been relatively slow and irregular. During the long period which elapsed between the industrial revolution and the First World War, the new methods of production in which technique has constantly found expression have reached only a small proportion of the World's population... Thus the great industrial centres of the world grew up, while the vast and heterogeneous peripheral areas of the new system shared only to a slight extent the improvement of productivity.

In these peripheral areas, technical progress only affected small sectors of the vast population, as it usually penetrated only where it was needed to produce foodstuffs and raw materials at low cost for delivery to the great industrial centres.

(...) All that happened in that period was that the world economy passed through a singularly important stage in its growth, but in spite of the significance of its effects, it could hardly be called a final stage since, to a certain extent, it had left untouched the vast peripheral area with its enormous potential capacity for assimilating technical progress so as to raise the very inadequate standard of living of the great masses of its population.

Carefully considered, the economic development of the peripheral country is one more stage in the worldwide spread of the new forms of productive technique, or, if preferred, in the organic development of world economy. A few early signs of this new stage had already appeared in the primary producer countries before the First World War. But it was the war, with the consequent difficulties of maintaining imports, which revealed the industrial possibilities of those

countries, while the great economic depression of the 1930s strengthened the conviction that those possibilities had to be used in order to offset, by means of internal development, the manifest failure of the external incentive which until then had stimulated Latin-American economy; this conviction was confirmed during the Second World War, when Latin American industry, with all its improvisations and difficulties, nevertheless became a source of employment and consumption for a large and increasing part of the population".<sup>10</sup>

Prebisch is therefore examining a dynamic setting, that of a spontaneous movement towards industrialization. He understands that this corresponds to a fundamental historical change in which both productive techniques and the benefits of their higher productivity may be reached by backward regions. The prospect of attaining economic development — which, in his view, is synonymous with higher productivity throughout the entire system — is, however, a very unsettled one, due to the characteristics of productive systems in peripheral economies and to the way these economies fit into modern world economy. The analysis of the dynamic problems arising during the process of change is another distinctive feature of Prebisch's theory. Let us turn to this now.

iii. Industrialization in the periphery seen as an unprecedented pattern of development and a problematic process

The Prebisch/ECLA theory of development is an analysis of the pattern of change which singularizes industrialization in Latin America as bearing a process that is typical of the "Periphery". This process is seen as differing from the one which took place during the industrial revolution in advanced economies. Prebisch uses the method of examining backward economies by contrasting them with advanced ones. He does not do this, as was the case with many authors, merely to describe an ideal process of change, but instead

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(10) Prebisch, R., "Economic Survey...", op. cit., pp. 3-4.

seeks to identify the problems of the peripheral situation which hinder its radical transformation. The contrast with advanced economies is therefore a device used to single out the special features of industrialization in underdeveloped countries.

The contrast is used mainly to recall that in the classical process of industrialization, demand patterns developed pari passu with technological discoveries and with the increasing wealth, so that the productive structure was able to accommodate or even anticipate the change in the society's consumption structure; and that moreover, and equally important, the various productive sectors expanded more or less simultaneously, so that no major discontinuity was generated in the economy's productive structure. The consumption pattern in underdeveloped countries, on the contrary, is to a significant extent independent of the productive system, modern goods being provided by imports that are paid out of export revenues. The collapse of the prior growth model disclosed the inability of backward economies' productive structures to comply with modern demand patterns. It also revealed their inability to accommodate an accelerated process of change.

The new phase starts off by having to rely on an economy that has specialized in a few export activities, with a low degree of diversification and lack of inter-sectorial complementarity and vertical integration. These deficiencies cannot be satisfactorily compensated for by means of imports, as exports are not large enough to provide the import capacity required under such circumstances.

The other basic feature in these economies, besides specialization, is the low productivity found in all sectors, save for the export one. An integral part of this "structural heterogeneity" is the existence of a large actual and potential labor surplus.<sup>11</sup> The low average per capita producti-

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(11) The concept of structural heterogeneity applies perfectly well to this basic feature of ECLA's analysis. It has only been used, however, as late as in the 1960s by Anibal Pinto.

vity reduces the possibility of raising saving rates in those economies, a situation that is worsened by the luxurious consumption patterns followed by wealthier social classes — a habit that tends to be aggravated as a result of the modern increase in "demonstration effects".

The continuity of the "new stage of spread of technical progress" is severely endangered by the set of problems that are characteristic of peripheral economies. As a result of the two distinctive features of those economies' productive structures, i.e., specialization and technological heterogeneity, the ongoing process entails four trends that play a basic role in the dynamic setting, viz., the tendencies toward unemployment, a deterioration in the terms of trade, external disequilibrium, and inflation.

(a) Unemployment, which already existed in disguised or open form at the very early stages of the new process, as a result of the incapability of external activities to absorb real or potential labor surplus — an aspect which symbolizes the structural heterogeneity of those economic systems — tends to persist throughout the industrialization process. First, there is the problem of insufficient savings and capital accumulation, which reduced the capacity to absorb labor surplus, particularly when there are high rates of populational growth. Second, the Periphery is bound to use the capital-intensive techniques available in the Center, which have been historically generated to increase labor productivity by raising capital intensity per worker. Technical progress in the Center is a phenomenon that cannot be dissociated from the existence of labor supply itself, nor from capital availability. In the Periphery, on the contrary, it is independent of both, and the fact that capital is scarce and labor is abundant plays no vital part in the choice of techniques by entrepreneurs; the result being that the best selection of techniques, from the macroeconomic and social points of view, is seldom the one that takes place: labor is wasted and unemployment persists.<sup>12</sup>

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(12) Another problem associated by Prebisch with modern techniques is that of their indivisibility, or of their scale's not being reducible to the

The third factor contributing to the tendency toward unemployment also stems from the comparison between technical progress characteristics at the Center and in the Periphery. At the Center, technical progress tends to create unemployment, but at the same time it reabsorbs displaced workers by means of increased investments, which in turn increase employment in the capital goods sectors; whereas in the Periphery, the non-existence of these sectors implies that the demand for capital goods inherent in the process of technical progress does not operate as a labor absorber.<sup>13</sup>

(b) The deterioration in terms of trade is equally unavoidable in the early periods of the industrialization process. For a long time, specialized peripheral economies have to go on relying on primary exports. As there is a large labor surplus available for such activities and a very slow expansion in international demand for primary products, the downward pressure on wages and prices in the Periphery tends to persist, thus maintaining the tendency toward a deterioration in the terms of trade — and adding, of course, to the problems of external disequilibrium.

(c) The tendency toward an external disequilibrium results from the import requirements of industrializing economies that have specialized in a few export activities, but face an inelastic demand for their exports. Because they are specialized, peripheral economies must rely heavily on imports of capital and intermediary goods as these are not internally available. The "demonstration effects" add pressure to imports and the overall income elasticity of demand is very high. On the other hand, however, international de-

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size of the market in backward countries. This brings about an underutilization of capital, affecting the overall growth rate and therefore, labor absorption.

(13) Prebisch adds that "Consequently, this demand, instead of being reflected in the economy of the developing country, transfers its effects to the industrial centres where such goods are produced. If these centres do not compensate for this demand for their products by means of a corresponding increase of their imports from Latin American countries, the unemployment caused by technical progress will persist, unless it can be countered by a policy of economic development" ("Economic Survey...", op.cit., p. 65).

mand for primary product exports grows exceedingly slowly, and this results in a constant lack of import capacity. Internal production of formerly imported goods is no solution to this problem, for what the process entails is a change in import composition, and not a reduction in its volume. There is a heavy increase in imports of capital goods and industrial equipment. Therefore, there being nothing within the system to assure a proportionality between the growth of import demand and the growth of import capacity, the external disequilibrium problem tends to reappear in the evolution of the process, instead of disappearing with it, at least until a rather advanced stage can be reached or until the import substitution process can be concluded.

(d) The tendency toward inflation is another characteristic of the same structural setting. The industrialization process in non-diversified and undercapitalized economies creates a number of structural imbalances which result in an unavoidable inflation process. The analysis of this tendency has received ECLA's careful consideration within the context of Latin American disputes about stabilization policies. Its importance for the Brazilian debate has been sufficiently great to warrant our summarizing it, as we now set out to do.

#### iv. The structuralist thesis about inflation

A by-product of the theory of peripheral development has been the structuralist thesis about inflation. Earlier in this chapter, we have examined a list of the major arguments presented in the economics of development as criticisms to the use of orthodox doctrines in underdeveloped countries. Most of those arguments were wholeheartedly backed up by nationalist economists in such countries. None of them, however, at least in Latin America, has provoked as much political enthusiasm as the structuralist view of inflation. The reason is quite obvious.

Nationalists regarded stabilization policies as outrageous, in that they hampered the economic development under way — a development that meant,

in their opinion, a fundamental historical change; and structuralism was now providing a powerful weapon for the struggle against stabilization policies. According to structuralist views, money expands passively in response to structural inflationary pressures, it therefore being wrong to regard it as the cause of inflation. The only way to avoid inflation is to change the structural conditions underlying it, and this has to be done through a planned and continuous effort of economic growth. Credit and fiscal restrictive policies not only fail to cope with inflation, but, by causing recession, reinforce the latent structural inflationary trends, which are bound to break out as soon as expansion is resumed.

We need not discuss the structuralist thesis at length at this point. For our purposes, it should be enough to offer a brief outline of its main analytical contents.

The structuralist approach was gradually formulated in the course of the 1950s as part of an effort to understand the inflationary process in Latin American countries, particularly Chile, and to criticize orthodox policies.<sup>14</sup>

Prebisch's early writings already present one of the main ingredients of the structuralist theses, i.e., the argument that inflation is not the only possible fundamental cause of external deficits, as claimed by dominant theories, but that it may be an unavoidable result of the Latin American de-

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(14) The structuralist approach as a whole is viewed as the creation of a number of different authors who were not necessarily associated with ECLA, but generally shared that agency's interpretation of the historical significance of the Latin American experience of the economic and social changes that had been taking place since the 1930s. In the extensive list of Latin American structuralist authors, the three most important names are perhaps those of Anibal Pinto, Oswaldo Sunkel, and Juan Noyola. Nicholas Kaldor has given some support to the structuralist thesis in his influential essay "Problemas econômicos do Chile", *Trimestre Econômico*, Vol. XXVIII, no. 2, April-June 1959. The most enthusiastic English support came from Dudley Seers, who elaborated on the structuralist point of view in "A theory of inflation and growth in underdeveloped countries", *Oxford Economic Papers*, June 1962. Albert Hirschmann has used an approach similar to the structuralist one, but based it on his totally independent interpretation of the dynamics of unbalanced growth in underdeveloped countries (see his "Strategy of economic growth", op.cit., ch. 9).



velopment process. In Prebisch's own words,

"It is obvious that if, when the national income of a country increases at a greater rate than its population, exports did the same, there would be no disequilibrium. However, this has not been the general experience in Latin American countries during the last twenty-five years, as the next chapter indicates. It now becomes easy to understand the reason for certain tendencies towards a chronic disequilibrium in the balance of payments observable in some of those countries which are anxious to increase productivity and raise the standard of living of the population. It is true that inflation is partly, often chiefly responsible for this; but in order to arrive at the truth, the organic phenomenon of economic development must be distinguished from the circumstantial phenomenon of inflation. To the degree that the import coefficient remains in one way or another unadjusted — when total income increases at a greater rate than exports and when no foreign investments are made to cover the time lag until readjustment takes place — the tendency towards disequilibrium will be constant and will inevitably have monetary consequences, whether inflation is present or not".<sup>15</sup>

Prebisch did not, in this text published in 1950, go as far as to state clearly that the causal link between inflation and a persistent external disequilibrium is rather the opposite of that asserted by orthodox economists. But other ECLA economists, later responsible for introducing the so-called structuralist approach to inflation, have been inspired by Prebisch's ideas about a chronic disequilibrium in the balance of payments and have included it as a basic source of inflation. The continuous reduction in the per capita import capacity causes persistent devaluations in the exchange rate, pushing up internal costs and prices. In other words, external disequilibrium is not only said to arise independently of inflation, but it can also actually cause inflation.

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(15) Prebisch, R., "Growth, disequilibrium and disparities: interpretation of the process of economic development", in "Economic Survey...", op. cit., p. 11.

The foregoing approach does not contradict the idea that because of inflation and recurrent overvaluations of the domestic currency some distortions arise in the mechanism of resource allocation, seriously affecting export activities. As a matter of fact, Prebisch himself analyzed the Argentinean case precisely along those lines. As compared to the orthodox explanation, the difference is that inflation and overvaluation are seen as a further mechanism of external disequilibrium — not necessarily the original one, and certainly not the only one.

Up to 1956 the structuralist view of inflation was held without the support of an all-embracing theory. The major analytical contribution toward this end was presented in that year by Juan Noyola Vasquez in an essay about inflation in Mexico and Chile.<sup>16</sup> In order to present the basic structural thesis that inflation is not a monetary phenomenon, but rather a consequence of tensions and imbalances that stem from the actual structures of the economies, Noyola introduced a new model of analysis based upon two concepts, viz., "basic inflationary pressures" and "propagation mechanisms". The main basic pressures, in the text applied to Chile and Mexico, were said to be external disequilibrium and rigidity of food supply; and the main propagation factors were indicated as the fiscal and credit mechanisms, as well as the mechanism of price and income increases. The main thesis, rephrased in accordance with this model, becomes the proposition that inflation is chiefly the result of basic or structural pressures and that it is merely strengthened by the action of propagating mechanisms, and not caused by them. The general analytical proposition, to use Noyola's own words, is that, in order...

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(16) Noyola Vasquez, J., "El desarrollo economico y la inflación en México y otros países latinoamericanos", *Investigación Económica*, Vol. XVI, no. 4, Mexico. The author's approach embodies various elements which had been present in former writings criticizing orthodox monetary policies in Latin American countries. It can be viewed, therefore, as a formalization of the existing critical economic thought about this issue.

"to analyze inflation in various Latin American countries it is necessary to identify in each one of them the basic inflationary pressures, as well as their intensities, and then observe if there are favourable conditions for the existence of propagation mechanisms, find out which they are and in what way they work".<sup>17</sup>

The closing link between the two sets of concepts becomes quite obvious. The basic model consists of a classification of the various factors which generate or accelerate inflation, according to their relative importance. But in order to find out what the various factors are, it is necessary to examine each country's specific conditions, i.e., what their structural, dynamic and institutional characteristics are.

Noyola's model was improved upon in 1958 by Oswaldo Sunkel, who classified the factors underlying inflation in four categories: "basic", "circumstantial", "cumulative", and "propagative".<sup>18</sup> Two other important analytical contributions came from Anibal Pinto and Dudley Seers.

Pinto presented a methodology that was broader than the Noyola-Sunkel one and that could easily accommodate their model.<sup>19</sup> He first described the analysis as specifically concerned with Latin American countries that were induced to adopt a new, "internationally-oriented" pattern of growth as a result of the collapse or insufficiency of growth based upon the external sector. In so doing, he introduced a more straightforward historical dimension into the analysis. Pinto next stated that the combination of factors that cause the inflationary disequilibrium arising in each particular country will depend on the following five main circumstances: the evolution of

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(17) Idem, p. 606.

(18) Sunkel, O., "La inflación chilena: un enfoque heterodoxo", El Trimestre Económico, Vol XXV, no. 4, Mexico, Oct.-Dec. 1958. A slightly improved version was written in "Un esquema general para el análisis de la inflación", Economía, First Quarter 1959, Santiago.

(19) Anibal Pinto, S.C., "El análisis de la inflación, estructuralistas y monetaristas: un recuento", Revista de Economía Latinoamericana no. 4, 1961, Caracas.

the external sector; the speed and depth of the readjustments to which the economy is submitted; the productive system's flexibility in adapting to the requirements of an "internally-oriented development"; the ability of the society and its institutions to adapt to and facilitate economic changes; and finally, the economic policy decisions that permit, enhance or jeopardize the objectives pursued and the continuity of the process.

Dudley Seers was himself very conscious of the need to clearly identify the basic historical characteristics of underdeveloped countries so as to analyze their inflationary problems. He also thought it inappropriate to apply to such countries the theories used to analyze mature economies, and made an important contribution to structuralist analysis. He developed a model that is regarded as the most rigorous presentation of the structuralist thesis, wherein the basic constraints of the economy — the external and internal bottlenecks — are set against the dynamic realities that are specific to underdeveloped countries.<sup>20</sup>

The various methodologies are complementary, differing mainly as to the rigour and elegance of the form of presentation of the structuralist thesis, as well as in terms of the comprehensiveness of the analysis they can give support to. But the essence of the thesis is always the same, i.e., they all are methodologies based on the idea that growth in Latin American countries, in the particular historical period under examination, amount to a process that naturally develops into imbalances in the productive structure.

Compared to the new industrial and urban sectors, which have a high potential growth rate, primary exports, as well as food supply and the supply of basic overhead services are relatively stagnant. Exports do not expand with sufficient speed as international demand for primary products increases very slowly; food supply is rigid because of the "pre-capitalist" conditions

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(20) See the author's "A theory of inflation..."; op. cit.

of land tenure; and public services are insufficient because of the inadequacy of the tax system.

Such disproportions resolve themselves dynamically into inflation, which introduces the political dilemma of a choice between a fast but imbalanced growth situation or a relative stagnation, a condition in which the growth forces are obstructed by the structural deficiencies of the economic system.

The solution lies in a policy of growth comprising structural changes. The external constraint itself can be neutralized only by means of the economic system's greater independence from imports, which can only be achieved through a major industrialization effort. The food supply problem requires land reform and strong governmental support for basic facilities such as drainage, storage, transportation, etc. This, in turn, along with the expenditures on public services, cannot be implemented without a radical reform in the tax system. And all these changes are unthinkable in a stagnant economy. Therefore, the choice between economic development and monetary stabilization is actually a "false dilemma", as on the one hand, unless the system is artificially kept by restrictive policies in a stagnant situation, the latent inflationary forces will always emerge; and, on the other hand, economic development with structural reforms is the only possible solution to inflation in the long run.<sup>21</sup> This thesis obviously cannot be taken as an inflationist claim. Structuralists did not disagree with their opponents as to the potential damages caused by inflation. Their points were, first, that inflation was unavoidable, though it was not a positive support to economic development; and second, that stabilization policies obstruct economic development and are actually fruitless, as price increases tend to reappear.

Clearly, the structuralist model turned out to be quite an ingenious analytical weapon set against the arguments held by the traditional approach,

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(21) See Prebisch, R., "Economic development or monetary stability: the false dilemma", Economic Bulletin for Latin America, VI, No. 1, March 1961, pp. 1-9.

symbolized in Latin America by the International Monetary Fund and labelled "monetarism". It is important to recognize that the opposition to structuralism was not necessarily based on a quantitativist approach. In Brazil, for instance, its two major opponents, Eugênio Gudín and Roberto Campos, were rather Keynesian economists in many ways. But they were also considered "monetarist" because of their fierce opposition to the structuralist view. The fact that structuralism is a long-term theory of inflation is the main reason why a Keynesian author such as Campos could be called a "monetarist". Structuralism is not an "anti-monetarist" theory in the same way as Keynesianism is. All Keynesians in Latin America who claimed that there was full employment and that stability and growth are compatible even in backward regions were potentially "monetarist" economist in the anti-structuralist sense. This point, as well as the monetarist arguments against structuralism, will be focused in the chapters concerning Eugênio Gudín and Roberto Campos.<sup>22</sup>

#### v. The import-substitution thesis

The thesis of import substitution as the specific process of Latin American industrialization is too well-known to require a description here. It consists mainly of the idea that that process is the result of a dynamic interaction between the problem of external disequilibrium and the new demands for imports arising from industrial expansion, which in turn results from the disequilibrium itself. The process starts off with the substitution of imports of finished non-durable goods, which involve a simpler technology

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(22) The long-term nature of the structuralist thesis and its independence from the context of theories about money make it difficult to consider that thesis as belonging in theoretical controversies about money proper. It is perhaps best to regard it as a development thesis, or, better still, to say that it is a corollary or an advanced section of the theory of peripheral development outlined for Latin America by Prebisch's team in the years 1949-1951. In fact, it has the same historical dimension as the Prebisch/ECLA theory and is likewise based on the analysis of the lack of diversity and "structural heterogeneity" of peripheral economies as the basic causes for the problems arising in the course of their economic development.

and little capital. The new industries require the import of most of the intermediary and capital goods needed in the production process, which specialized peripheral economies will remain unable to produce until a much later stage in that process. Besides, import expansion is also indirectly engendered by the new industries, in that they work as the motive power of growth in the new internally-oriented stage of the economies, thus determining a process that involves an increase in the overall need for foreign goods. This implies a further lack of import capacity that brings about further import substitutions, and the process tends to progress into sectors of finished durable goods and intermediary and capital goods. The speed and depth of the whole process will depend, first, on each economy's capacity to adapt its own productive structure to the new demands of industrial expansion, which in turn depends on the productive system's level of diversification prior to the beginning of the process, and on the absolute size of internal markets; second, they will depend upon the expansion of the economy's import capacity.

Here we undoubtedly have another creative moment in Prebisch/ECLA's theory of development. The idea of import substitution as a dynamic process was not carefully formulated until late 1963 by M.C. Tavares.<sup>23</sup> Her formulation, however, was deeply rooted in ECLA's ideas as expressed since that agency's early writings.

Tavares's formulation fits into a dynamic setting three basic ideas expressed by ECLA in their early writings, viz., that the tendency towards external imbalances is inherent in peripheral industrialization; that industrialization in Latin America consists of import substitution engendered by external deficits; and that import substitution entails a change in import composition, but does not reduce the volume of imports.

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(23) Tavares, M.C., "The growth and decline of import substitution in Brazil", Economic Bulletin for Latin America, vol. IX, No. 1, March 1964. At the time of writing, the author was working for the ECLA branch in Rio de Janeiro under the influence of Anibal Pinto, who has been largely responsible for the diffusion and continuation of Prebisch's and ECLA's ideas in Latin America.

Furthermore, Tavares's explanation about the possibilities of deepening that process into a stage of investments in heavy industry combines three elements that were already present in Prebisch's writings, i.e., the questions of a lack of diversification in peripheral economies' productive structure, of the size of their internal markets, and of their import capacity. External deficits are seen both as the original stimulus for import substitution activities and as a barrier blocking the continuation of the process. The ability to overcome this contradiction will depend on the weight of import requirements stemming from the changing productive structure, which in turn will depend on the productive system's internal diversification and on the size of the internal market relative to the capacity to expand imports.

#### vi. ECLA's planning proposal

Planning appears in ECLA's thought as the first natural corollary of the diagnosis of structural imbalances that are said to occur in the spontaneous industrialization process in peripheral countries. In the text that stands as a transitional document from the stage of basic analytical formulations (1949 to 1951) into the stage of policy proposals (from 1951 onwards), ECLA claims that a development program is urgently required and focuses its argumentation on the need to help avoiding external imbalances, as well as establishing a suitable balance in the expansion of the various basic activities. A program is also particularly necessary in view of the scarce savings, which demand a careful selection of the activities to be stimulated.<sup>24</sup> From that point onwards, planning would become a continuous obsession of ECLA's, symbolizing the agency's concern about economic development.

ECLA's classical text about planning proposed a methodology that was to be followed by Latin American countries in order to rationalize their

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(24) Prebisch, R., Theoretical and practical problems..., op. cit.



growth process.<sup>25</sup> To put it briefly, the planning technique should consist of two steps. First, the income growth rate and its corresponding investment volume should be estimated by means of global projections about the economy's savings rate (both internal savings and net capital inflow), the capital-output ratio, and the terms of trade. A global projection of the economy's import capacity should also be added. Second, projections about the demand should be prepared for all sectors on the basis of projected income growth, income distribution, and income elasticities. Investment decisions should obey Kahn-Chenery's criterion of marginal social productivity.

As for the problem of dealing with foreign exchange constraints by means of import substitution and/or export promotion, ECLA's text states that, "whereas, however, the channelling of investments can be solved through the principle of marginal social productivity, import replacement is complicated by the difficulty of forecasting trends in foreign demand, a basic factor in the capacity to import".<sup>26</sup> It next seems to deem it convenient to assume that the investment required to increase exports will be available whenever foreign demand prospects are favorable, so that the criterion should not apply to export activities. The solution to the question of how much to invest in import substitution would be "to estimate the capacity to import, on the basis of an overall hypothesis of foreign demand, and calculate the degree of effort needed to replace imports that the hypothetical rate of growth would require".<sup>27</sup>

The text contains observations that show an awareness of the limitation of leaving export investments out of the decision-making picture. However, it lacks a consideration of the problem of the import substitution investments that are required from the point of view of external constraints,

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(25) ECLA, An introduction to the technique of programming, United Nations, 1955.

(26) Idem, p. 38.

(27) Idem, p. 39.

but which rank low in the hierarchy of the marginal productivity chart.

Nevertheless, it must be noted that the special treatment the text explicitly suggests for dealing with import investments, and implicitly proposes in dealing with import substitution investments, is perfectly in keeping with ECLA's general principle about import capacity: as a structural obstacle to growth, it should be treated as an independent element in any development program.

The aforementioned document, published in 1955, is an orderly and rather comprehensive statement about the structural problems of peripheral development as seen from the point of view of an ECLA planner, and it has been helpful for studies about economic development planning in Latin American countries. With some adaptations, it was applied by the Brazilian ECLA/BNDE Group in a planning study conducted by Celso Furtado in 1954, in Rio de Janeiro.

vii. Prebisch's argumentation in favor of protectionism based upon a three-sectorial model

Protectionism, just as planning, was a persistent obsession in Prebisch's mind. His contribution in this field has been of a higher theoretical level as compared to ECLA's planning analysis. In his struggle against the ever present orthodox arguments favoring free trade, Prebisch gradually improved upon his theoretical argumentation for protectionism.

In the early ECLA texts, Prebisch clearly stated that the whole of labor surplus in the Periphery should not be used in export activities, as this would cause a fall in the terms of trade. Therefore, despite the higher costs of internal industrial activities as compared to imports, the best use for the available labor surplus would still lie in those activities.

This argument was repeated in a text dated 1954, wherein the case for protectionism was more explicitly stated. In the same text, the following qualification as to the disadvantages of reducing wage levels in order to in-

crease competitiveness is added:

"In the abstract, it is possible to conceive a case in which a decrease in the wage levels of less developed countries could offset these differences in productivity. On this supposition, a given country could entirely abolish its protective tariff, always provided that the decline in wages would compensate industrial establishments for the losses which would ensue. But, in addition to being impracticable for social and political reasons, such a policy would have serious economic consequences. If a decline in domestic wages were followed by a fall in prices, real wages might recover their former levels, assuming that adequate adjustments could be made. However, this wage decline could in turn affect export activities, causing a drop in export prices throughout the workings of the wage-price mechanism. Since this would not be accompanied by a corresponding fall in import prices, a deterioration of the terms of trade would result, with adverse effects on investment and the rate of development of the country.

Therefore, if the spontaneous development in industry is impracticable and uneconomic, protection alone, either through customs tariffs or subsidies, would remain to offset the differences in productivity, since import restrictions are usually less advisable as a measure of industrial policy, unless they are only temporary".<sup>28</sup>

The foregoing argument was included in a later paper specially devoted to the question of protectionism.<sup>29</sup> In this paper Prebisch builds up a formal model based on two sectors: the industrial and the primary exports ones. A fundamental element in the model is, however, the existence of surplus labor, and the crucial issue examined by the model is its best economic use, i.e., whether it should be applied to export activities, thus causing a deterioration in the terms of trade, or absorbed by the industry in activities that are increasingly less efficient and that demand either increasing

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(28) Prebisch, R., International co-operation in a Latin American..., op.cit., p. 62.

(29) Prebisch, R., "Commercial policy of the underdeveloped...", op. cit.

protection or an increasing drop in the wage level. By means of his model, Prebisch concludes for the need of protection for the industry.

Now, if one reads that text and then goes back to the earlier ones; he or she will conclude that, in fact, Prebisch is always thinking of the peripheral economic system in terms of three sectors, i.e., the backward subsistence sector, and the export and industrial ones. It is immaterial that in his model of 1959 Prebisch does not state that labor surplus comes from the stagnant subsistence sector and has a zero opportunity cost. Throughout his economic thought, "real and potential surplus labor" is a crucial element, as is proved, for instance, by the following quotation:

"Exports are not sufficient to absorb the increase in population, let alone the surplus, real or potential, of the economically active population engaged in agriculture or other activities. This fact constitutes a feature common to the economic development of Mexico, Argentina and other Latin American countries".<sup>30</sup>

Prebisch/ECLA's theory of development is therefore based on a three-sector economy, development itself having the meaning of an absorption of labor from activities with low average labor productivity — and zero or negative marginal labor productivity — by the modern sectors. And it is a theory that aims to show the superiority of absorbing it in modern internal activities as compared to modern export activities, regardless of the high cost of the former, thanks to the dynamic inevitability of a fall in the terms of trade due to the inelasticity in international demand for primary products. As market signs do not anticipate the future of relative prices, or so it runs, recourse to protectionism is necessary so as to replace that anticipation and therefore avoid a misguided allocation of resources to export sectors.

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(30) ECLA, "Economic survey...", op. cit., p. 6.

By reasoning in terms of three sectors, Prebisch was able to formulate a dynamic theory of the relative prices of the two capitalist sectors, i.e., of the prices of primary exports as compared to the price of industrial goods, and to make a case for protection. He has built up an interesting thesis on resource allocation for peripheral economies, wherein the drawbacks of specialization and of surplus labor abundance were brought into the picture to call for protectionism on behalf of underdeveloped countries.

#### 2.4. Conclusion

The general feeling among a large number of economists who, in the decades of 1940 and 1950, wrote about Latin American economies, seems to have been one of distrust toward the existing economic theory, and of perplexity in face of the lack of theories that might be adapted to the social and economic realities those authors were trying to understand and to help transform.

It was in the context of this "theoretical void" that Prebisch/ECLA's theory of peripheral development, as summarized above, gained special significance. ECLA has not formulated a theory of investments or capital accumulation, but, by combining its thesis of the historical changes in the Center-Periphery system with the characteristics of peripheral productive structures, the agency was able to provide an ingenious analytical framework whereby a number of important trends that are typical of growth in underdeveloped economies — such as external deficits, deterioration in the terms of trade, unemployment, and inflation — could be foreseen and studied in a strikingly powerful way. The use of ECLA's theory made by nationalist economists in the Brazilian debate about economic development in the decades in 1950 and early 1960, to be surveyed in the following chapters, is a good proof of the significance of that agency's theoretical contribution.

II. PART I: THE TRENDS OF ECONOMIC THOUGHT IN BRAZIL - 1945/1964

## 1. Introduction: Developmentalism, Neo-liberalism, and Socialism

This part of the work will cover an examination of the conceptual framework of Brazilian economic thought in the period 1945-1964. The picture here presented is organized in terms of currents of economic thought, such as defined by their basic economic projects. For that reason, developmentalism — which became the dominant economic ideology in the fifties — will be our major working tool, our key concept. As formerly defined, developmentalism is the "project" for overcoming underdevelopment via full industrialization, by means of planning and a decisive state support. The concept of developmentalism allows us to define five strands in economic thought within which one may class the vast majority of economists and intellectuals who have taken part in the Brazilian economic debate of 1945-1964.

### 1.1. The Neo-Liberal Current

This is defined in contradistinction to the developmentalist current and comprises those economists who advocated a priority for the free movement of market forces as a means to achieve economic efficiency. They did not necessarily stand in open opposition against industrialization and often claimed to favor some industrial diversification. Their characteristic feature, however, was their opposition to or at least their omission in regard to developmentalist proposals. Their participation in the economic debate is basically linked to a proposal for establishing adequate conditions for a monetary and financial equilibrium that, in their view, was indispensable for maximizing the efficacy of market mechanisms. Toward that end they would even go as far as to admit of some state intervention to correct those maladjustments commonly found in underdeveloped economies.

### 1.2. Three Developmentalist Currents

a) In the private sector there was a group of economists who took an anti-liberal, developmentalist position. They favored state support to

private accumulation and had variable views regarding the level of state participation that would be appropriate for that process. Also, with respect to foreign capital participation in the Brazilian economy, no single homogeneous stance could be distinguished in this current.

b) In the public sector there was a current which, for want of a better term, we have called "non-nationalist". The economists in this current favored state support to industrialization, but showed a marked preference for private solutions in the event of disputes over state investments. Also, in contrast with "nationalist" developmentalists and approaching neo-liberals, they had an inclination to monetary stabilization policies. But they were careful to insist on the idea that no harm should be caused to basic investments as a result of monetary policies.

c) Also in the public sector was a current of "nationalist" developmentalists. The economists following this line of thought supported state solutions for investment in sectors viewed as strategic for the continuation of the industrialization process, i.e., mining, power generation, transports, telecommunications, and some heavy industries. The term "nationalist" is adequate in that the alternative proposal for state intervention was foreign investment, given the fragility of the national capital structure. Moreover, nationalist developmentalists were generally opposed to stabilization policies for fear of a recession.

### 1.3. The Socialist Current

This was comprised of intellectuals and economists who, generally speaking, had some kind of link with the Brazilian Communist Party (PCB). In a way, socialists were also "developmentalists", for they supported industrialization and state intervention. They were also the most radical of nationalist intellectuals. Their basic project, however, was not industrialization pure and simple, but rather a transition into socialism. Industrialization, as viewed by this strand, represented the development of the productive forces



required for the transitional process into socialism. All of the socialist thinking is organized on the basis of this perspective, as well as of "anti-feudal" and "anti-imperialistic" struggles, which the PCB viewed as priority issues. This perspective subordinated the socialist current's entire economic thought, influencing not only the content of that thought but also its form of expression, which helped accentuate the differences between this strand and nationalist developmentalism.

In this part of our work we aim to examine the thought of the five foregoing currents. We will emphasize the work of the five major economists of the period under study, namely, neo-liberal Eugênio Gudin, developmentalists Roberto Simonsen, Roberto Campos and Celso Furtado, and one independent thinker, Ignácio Rangel.

In closing Part I we shall provide a summary table indicating the stance taken by the various currents with regard to the basic questions of political economy discussed in Brazil at that time. The table has been organized in accordance with the currents of thought then in existence. Although it represents an arrival point for Part I of this study, toward which we shall be proceeding in the forthcoming chapters, its reading at this point may provide an anticipated overall view of the ideas to be described and assessed in following.

## 2. Neo-Liberal Thought

### 2.1. Introduction: The Gudin-Bulhões Team

The neo-liberal current, along with the nationalist developmentalist strand, was the most important expression of Brazilian economic thought in the period under study. Its members were always active participants in the economic debate, either formulating economic policies that were criticized by developmentalists or formulating criticisms to the latter's propositions.

Liberalism was a tradition in Brazilian economic ideology from the beginning of the nineteenth century up to the decade of 1930, in historians'

unanimous opinion. The international crisis and the economic, political and social transformations which ensued undermined the foundations of that tradition, and different conceptions of Brazilian development began to emerge. As a reaction to that, liberal ideology itself had to undergo some transformations to resist the impact of the new reality. Economic neo-liberalism is the outcome of that process.

Neo-liberal economists were primarily concerned with defending the market system as a basic formula for economic efficiency. They were therefore liberals above all else. The prefix "neo" has a very precise meaning: it stands for the fact that the majority of Brazilian liberals in the new reality of the post-thirties were beginning to admit of a need for some state intervention to remedy certain market imperfections that, as they were ready to acknowledge, did affect underdeveloped economies like the Brazilian one. This position is analogous to that of the liberals who made concessions to Keynesianism, admitting of anti-cyclic measures as a form of reconducting advanced economies into a situation where, as they believed, market mechanisms would again assure equilibrium and efficiency.

Three main aspects are characteristic of neo-liberal economists in Brazil:

- a) They subscribed to the principle of reducing state intervention in Brazilian economy;
- b) They systematically argued for monetary and financial equilibrium policies, while avoiding any discussion as to their effects on the level of income and employment;
- c) They did not propose any measures to support the industrialization process and often opposed such measures.

Several types of economists fit into the foregoing definition. In this work, we regard as neo-liberals such economists as Eugênio Gudin and Daniel de Carvalho, whose argumentation adhered to the principle of the clas-

sical international division of labor, privileging, for instance, opposition to protectionism. There were also economists like Octávio Gouveia de Bulhões, Denio Nogueira and Alexandre Kafka, who showed a clearer perception of the strength and irreversibility of the industrialization process already under way, but took part in the economic debate always with a primary concern about monetary stability, abstaining from proposing any policies in support of industrialization or criticizing the policies adopted towards that end. It should be noted that Roberto Campos, for instance, was also deeply concerned with monetary stability, but was one of the organizers of the National Bank for Economic Development (BNDE), as well as chief formulator and executive of the "Plano de Metas" (Target Plan), all of which allows us to define him as a developmentalist, in contrast with economists of neo-liberal orientation.

Among neo-liberals, there were also differences as to the minimum level of intervention viewed as desirable. Virtually all of them agreed upon the need for some kind of governmental control over foreign trade so as to overcome the problems arising from the characteristics of international supply and demand for primary products. They also admitted of governmental support to such activities as education, health, and technical assistance to agriculture. But there was no complete homogeneity in their views about the extent to which the government should grant financial support to infrastructural economic activities justified by the need to create "external economies". They were in agreement solely upon the idea that no direct investment in that area should be incumbent upon the government, and regarded foreign capital as the most convenient capitalist agent to carry out those activities.

The major center for intellectual activity gathering neo-liberal economists was the Getúlio Vargas Foundation (FGV). Shortly after its inauguration in 1944, Eugênio Gudin and Octávio Gouveia de Bulhões succeeded in setting up a fine economic research division which, by 1950, was named Instituto Brasileiro de Economia (Brazilian Economy Institute). As of 1948, the team began to publish the Revista Brasileira de Economia (Journal of Brazi-

lian Economy), which was the first good level Brazilian academic publication in the field of economics. In 1952, the team took charge of another important periodical published by FGV, i.e., Conjuntura Econômica, which since its first edition, issued in 1947, had been under the direction of developmentally oriented intellectuals. The group also exercised a marked influence on the teaching of economics in Brazil. Gudin and Bulhões introduced the first program for a graduation course entirely devoted to economic sciences, and the Federal University of Rio de Janeiro congregated the intellectual leaders of the School of Economics, which was by far and for a long time the most important one in the country. Several other economists who were members of the Gudin-Bulhões team also lectured at that university.

The second institution of neo-liberal economic thought by order of importance in the Brazilian debate was the Conselho Nacional de Economia - CNE (National Economic Council). Mostly during its early years, when Bulhões's influence was very strong, the CNE had an outstanding participation in the debate about Brazilian economy, assuming a favorable position towards a reduction of state intervention in the economy and rigorous control over the inflationary process. CNE published two important periodicals: an annual report headed Posição Geral sobre a Situação Econômica do Brasil (General Overview of the Brazilian Economic Situation), and the by-monthly Revista do CNE (CNE Journal), both receiving technical support from that agency's Economic Department. During the second half of the fifties and in the early sixties there was a gradual decline of conservative hegemony within the Council and CNE became a more eclectic agency, opening its doors to other currents of thought.

Confederação Nacional do Comércio - CNC (National Trade Confederation), Associação Comercial de São Paulo - ACSP (São Paulo Commercial Association), and Federação do Comércio de São Paulo - FCSP (São Paulo Federation of Commerce) were additional centers of some relevance for neo-liberal economic thought. CNC organized the First Brazilian Congress of Economy, held in

1943, and the First National Meeting of the Entrepreneurial Classes, held in 1945. During the decade of 1950, CNC set up a Technical Council whose conferences and debates, as of 1955, were transcribed in their Carta Mensal (Monthly Bulletin). ACSP and FCSP were responsible for the publication of an important periodical called Digesto Econômico (Economic Digest). It should be noted that this magazine, notwithstanding the liberal and anti-interventionist views of most of São Paulo's commercial leaders, adopted an eclectic line and granted space to a number of articles by economists who followed different lines of thought, while maintaining its general conservative inclination.

We shall describe the analytical and historical content of neo-liberal thought by means of two distinct procedures. First, we shall review the economic thought of the intellectual leader of the neo-liberal strand, Eugênio Gudin, who expresses in its most complete form his current's basic position. Later ahead, in Part II of this work, neo-liberal thought will be the object of an analysis of the general evolution of economic thought between 1945 and 1964. Part II will make constant references to Bulhões's thinking, which was of great importance in the economic debate of the entire period covered by this work. Bulhões's liberal discourse was less radicalized than Gudin's, showing more tolerance, for example, toward partial planning initiatives. In essence, however, his thinking had the same political role as Gudin's in that the conduction of economic policies preconized by both of them was approximately the same. Their only significant divergence concerned the establishment of a long-term financial system, a subject in which Bulhões stood out as the most important economist in Brazil.

Bulhões was the creator of Superintendência da Moeda e do Crédito - SUMOC (Money and Credit Superintendency) in 1945, as well as an indefatigable instigator of the creation of the Central Bank, finally established in 1964. Along with Roberto Campos, he was also responsible for the 1964-1967 financial reform. The financial market, according to Bulhões, was to be the major

instrument for increasing domestic savings, together with foreign capital. He also viewed it as the basic instrument for increasing the Brazilian market system's allocative efficiency.

Gudin did not support Bulhões in the aforementioned obsession, which can be found in his writings dated 1945 through 1964, as he deemed it unfeasible to establish a Central Bank and a sound financial system in an inflationary situation. As inflation continued, Gudin's position collided with Bulhões's in this respect throughout the period 1945-1964.

## 2.2. Eugênio Gudin's Thought

### a. Introduction

Eugênio Gudin was the most important Brazilian conservative economist of the period under examination. Trained as an engineer, he became an economist already in his maturity by an effort of self-instruction. He was responsible for the first serious effort in teaching and legitimizing economic theory in Brazil and may be viewed as the father of Brazilian economists.<sup>1</sup>

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(1) In 1941, Gudin submitted a proposal to Gustavo Capanema, then Minister of Education, for a reform of the Program for Courses in Economic Sciences in Brazilian universities, which had been elaborated in co-operation with Professor Maurice Byé and Professor Octávio Gouveia de Bulhões. Praised by eminent Harvard professors in 1944, his project was the basis for the study of economics throughout the country. Its content, distributed over four years, was as follows:

1st Grade: General Course on Political Economy; The Structure of Economic Organizations; General and Brazilian Economic Geography; Advanced Mathematics; and Practicum.

2nd Grade: Theory of Value and Price Formation; Money and Credit Theory; Statistics; General and Brazilian Economic History; and Practicum.

3rd Grade: Theory of Social Income Distribution; Theory of Commerce and International Trade; Statistical and Mathematical Methods Applied to Economics; Financial Science; and Practicum.

4th Grade: Theory of Economic Development and Conjunctural Policies; Comparative Studies on Economic Regimes; Sociology and Economics; History of Economic Thought; and Preparation of Theses.

For a review of Gudin's work as a lecturer, see J.M. Chacel's short but expressive article titled "Eugênio Gudin, o professor", in FGV, Eugênio Gudin visto por seus contemporâneos, Rio de Janeiro, FGV, 1979, pp. 27-29.

He was also the theoretical leader of the neo-liberal strand of thought in Brazil.

Gudin was fluent on all major issues in Brazilian political economy and elaborated on them with coherence and cogency. His texts, nearly always written in a language that was accessible even to lay readers in economics, were consulted not only by conservative politicians and economists in search for arguments that might serve as guidelines for their own positions, but also by the developmentalist intelligentsia. The latter was continually compelled to make an exercise in criticism concerning Gudin's analyses, not only because of the practical importance of such analyses, which received a wide public coverage, but also owing to an acknowledgement of the firmness and consistency of Gudin's line of argumentation. Given the assurance with which he diffused neo-liberal postulates, it is hard to imagine that the debate about economic development could have become more or less balanced, as it did become, were it not for the wealth of the anti-liberal interpretation inspired by Prebisch's and ECLA's texts in general.

Eugênio Gudin was a typical neo-liberal economist led to reinterpret the major statements of liberal theories in light of the economic problems revealed by the cyclic depression of the inter-war period. He made an effort to rehabilitate the basic principle of classical economy, i.e., a qualified defense of the principle of non-intervention of the state in the economy, by means of an elaboration of its applicability to underdeveloped countries. In his pursuit, Gudin was deeply identified with the ideas expressed by Viner and Haberler, two of the major free trade champions in his day, with whom he actually established personal friendship links.

As is widely known, the books by the two foregoing economists are seen as major works of reassessment of and support to the classical principle of the international division of labor. The authors seek to preserve that principle while taking into account the existence of economic cycles and conducting a systematic discussion of the validity of free trade in face of pro-

tectionist arguments. In those works Gudín found the ideal theoretical support for his own stance in regard to the central issue of the developmentalist debate of the 1940s and 1950s, i.e., the question of economic policies to support industrialization. But he did not merely reproduce pre-existing arguments. On the contrary, it was mostly in this analytical area that he displayed his creativity. Viner and Haberler, in writing their books, had focused their attention essentially on advanced economies — except at a later stage, already in the early 1950s, with the encouragement of Gudín himself.<sup>2</sup> The latter, in turn, was sufficiently innovative to re-think free trade from the particular perspective of underdeveloped countries. Other liberal economists in underdeveloped nations in the heat of the 1940s may hardly be said to have made as consistent an effort as Gudín's to readapt classical postulates to underdeveloped or "reflex" economies, to use his own term coined in 1940.

The outcome of this intellectual effort was that instead of merely disavowing the idea of Brazilian industrialization of behalf of a pure and outdated free-tradism, Gudín held some sophisticated and rather up-to-date views in this respect.

Roberto Campos once said that structuralism is a sort of intellectual counterpart for Keynesianism in Latin America. It would perhaps be no exaggeration to make the analogous statement that Gudín provided a sort of intellectual counterpart for neo-liberalism in Latin America, or more specifically in Brazil. He systematized liberal arguments by taking into account a number of characteristics that were specific to underdeveloped economies and elaborated on liberalism with a view to preserving it in those nations.

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(2) See, for instance, Viner's famous work dated 1950, where the author restates the principle of comparative advantages and makes some orthodox recommendations for economic policies in underdeveloped countries. This work was the basis for the conference made by Viner in Rio de Janeiro upon Gudín's invitation. See Prof. Jacob Viner's conferences in RBE, Jan.-March 1951, pp. 11-225 (published in English under the title International trade and economic development, Glencoe, Ill., Free Press, 1952).



The central hypothesis in Gudín's argumentation, as will be seen shortly, was the existence of full employment in Brazilian economy. This was an indispensable point for the consistency of his argumentation. Without it, the analytical support upon which he based his interpretation of Brazilian underdevelopment would have been seriously jeopardized. Gudín was fully aware of this, as well as totally convinced of the existence of full employment. Few among his most important texts on Brazilian economy fail to include an emphatic reiteration of the idea that it suffers from low productivity and "hyper-full employment", and not from unemployment, as developmentalists would have it.

This was also the argument which enabled him to conciliate an interpretation of monetary phenomena that approached the Keynesian one with a decidedly anti-structuralist position that approached the orthodox policies recommended by the IMF. As we will see later on, his textbook Princípios de Economia Monetária is the work of a typically non-quantitativist economist. In his conventional analysis of Brazilian inflation, the full employment hypothesis rendered him immune to Keynesian criticism, which was conveyed in his own book.

Armed with an analytical system that had been ingeniously adapted to face the questions of Brazilian political economy, Gudín was the major theoretical opponent of nationalistically-oriented Brazilian developmentalists. And a fierce opponent was he, no doubt, for with regard to politics he was fervorously conservative. It is perhaps precisely for that reason that his discussion of the question of economic planning is somewhat incomplete as compared to other essential issues. In terms of this question, there was a prevalence of his obsessive political opposition to state intervention in the economy, which he viewed as a dangerous concession to socialism. Hence the markedly ideological accent found in some of his writings.

In the following sections we will attempt to make a fairly comprehensive review of Gudín's works. Upon the first contact with them it becomes

apparent that his ideas are set in a sound theoretical bedrock and that his reasoning about actual issues often goes through a systematic elaboration of the applicability of his theoretical background to the analysis of reality. In fact, it is part of his style as a pioneer lecturer in the systematic teaching of economics in Brazil to establish connections, as a didactic resource, between his theoretical background and the actual shape of his arguments as applied to Brazilian economy.

Our review reproduces the logical structure of Gudin's thinking. We initially present a brief overview of his theoretical tenets; next, we analyze his views with regard to the application of economic theory to underdeveloped countries; and finally, we describe his interpretation of the questions pertaining to Brazilian economic development.

#### b. Characteristic features of Gudin's theoretical position

The great master of the Brazilian neo-liberal current had a consistently articulated theoretical argumentation which gave support and richness to his analyses of Brazilian economy.

The basic source to identify his theoretical foundations is his textbook Princípios de Economia Monetária, which the author himself used as a kind of handbook to back his actual analyses of the country's economy. The structure of his book accurately portrays the characteristics of his involvement with economic science. Gudin was not what one might conventionally call a theoretical economist.<sup>3</sup> He was an applied economist par excellence. He resorted to economic theory in search for tools that might allow an understanding of a number of actual issues that troubled him, such as inflation, economic cycles, foreign trade in underdeveloped countries, etc., and he did so with a practical view to understanding the possibilities of exercising an

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(3) Gudin tried some occasional incursions into the theoretical field. See, in this respect, the article by José M. Gouveia Vieira, "Eugênio Gudin: Três contribuições à teoria econômica", in FGV, Eugênio Gudin visto por seus contemporâneos, Rio de Janeiro, 1979, pp. 57-65.

influence on those questions through economic policies, as well as understanding their meaning and scope.

He did not bother, for example, to give a theoretical treatment to liberal principles,<sup>4</sup> as is reflected in his textbook.<sup>5</sup> This major academic work of his shows a clear tendency to being a guide to economic policies and is suggestive — if we take the author's career into consideration — of the all-embracing "declaration of principles of monetary economy" that would be typical of a technocrat running for the office of head of a central bank or Minister of Finance.<sup>6</sup>

Gudin was a confident but careful liberal. He worried about the imperfections of his own principles, which he sought to relativize as a means of preserving them. In other words, his economic reasoning was based on the

- (4) For example, no discussion of the theory of comparative advantages can be found in his writings. With regard to international commerce, he risks a few shy incursions while restricting himself to questions relating to the balance of payments and the exchange rates.
- (5) Gudín, E., Princípios de economia monetária, Rio de Janeiro, Agir. A confirmation of the fact that the author chose not to go deep into the theory of international trade can be found by an examination of the different editions of vol. I of his textbook. In the first few editions there are four chapters on the balance of payments and the exchange rate, gathered together under the somewhat equivocal heading "Teoria dos câmbios internacionais" (Theory of international trade). The author chose to suppress them from later editions, probably because he concluded that his treatment of the topic had been incomplete and that the chapters were entirely out of place within the context of that work.
- (6) Vol. I, whose initial edition dates back to 1943, deals with Money and Banks and includes a description of the Central Banks of England, France, and the U.S.A., as well as comments on the Latin American and Brazilian banking systems. Vol. II, published in 1952, starts off with an explicit switch-over from monetary theory into monetary policies by means of interest rates (book 1, "Elementos básicos de política monetária"). There follows a series of introductory chapters to economic policies ("Introdução à política econômica"), covering control over inflation, economic cycles, the theories of the multiplier and the accelerator, and the theory of employment (book 2). The work closes with the topic of monetary policies proper ("Política monetária"). The author next examines the question of economic stability and monetary and fiscal policies in industrialized countries, as well as the question of economic stability in those countries that specialize in producing primary goods ("Estabilidade econômica nos países de produção primária", book 3).

classical principle that capitalist economies tend to a maximum efficiency equilibrium whenever market mechanisms are allowed to operate freely. On the other hand, he made some extensive qualifications to this nuclear postulate of liberal thought in light of the historical evidence and the developments in economic theory. He admitted of and discussed, for example, the occurrence of endogenously determined crises and cyclic depressions. He found Keynes's ideas appropriate for understanding periods of depression and was one of the first authors to expose those ideas in Portuguese, in the 1952 edition of his textbook.

Gudin not only accepted some state intervention aiming to correct imperfections in the economic system's operation, but also (in line with the resurgence of neo-liberal optimism during the 1950s) progressed into the idea that, by using proper economic policies, one might even neutralize cyclic oscillations. He nevertheless held on to the principle of a minimum state intervention and to the idea that, in times of prosperity, the presence of the state in the economy should be avoided to the utmost, inasmuch as it hinders allocative efficiency in market mechanisms.

The theoretical flexibility of Gudin's book stands in contrast with the anti-interventionist crusade of which that author was the virtual leader in the Brazilian debate. But though this contrast does exist, it implies no contradiction. Gudin always kept a careful watch over the coherence of his ideas. He treated the Brazilian case as a situation of permanent full employment that eliminated the need for theoretical concessions such as those he had made in analyzing mature economies. As we will see later on, even in the case of Brazil and other underdeveloped economies in general, in which the author found a number of characteristics that led him to make some rather heterodox recommendations about foreign policies, those recommendations are perfectly in keeping with his conservative prescriptions regarding the central axis of economic policies.

The full-employment hypothesis also assured coherence between his

theoretical flexibility in dealing with monetary questions and the orthodoxy of his recommendations for anti-inflationary measures to be adopted in Brazil. At the level of monetary analyses, Gudin may be viewed as a Keynesian economist. His book contains enough statements that demonstrate his "non-monetarist" inclination in handling monetary questions. It must be stressed, in the first place, that just as he agreed to Keynesian criticism of Say's law, he equally refused the rigid postulates of the classical version of the quantitative theory, i.e., he rejected what one might term the "monetary counterpart to Say's law". His texts make it plain that he viewed the relationship between prices and the quantity of money as a complex one, therefore requiring the consideration of a number of real variables.<sup>7</sup> Moreover, in the introductory chapter to Vol. II, he explicitly declares it essential to examine "the integration of monetary theory into the theory of income, consumption and investment".<sup>8</sup>

Gudin's Princípios de Economia Monetária fail to examine the theory of inflation. It is not difficult, however, to identify the author's views in this respect, as his writings about Brazilian inflation contain several

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- (7) However, he did not examine the theoretical controversy of the post-war period regarding the validity of the classical quantitative theory, which centered around the complex question of the variability and predictability of the speed of monetary circulation. His account of monetary theory is basically confined to a review of the various versions of the exchange equation (Fisher, "real balance approach" and "income approach"). Also, he showed no interest in demonstrating how the debate on monetary theory had to do with monetary policies, i.e., in what way theoretical discussions were important for the positions taken in the field of monetary policies.
- (8) In this chapter, Gudin gives great emphasis to Wicksell, indicating that he felt the thesis of a "cumulative process" to be an outstanding contribution. He stresses Wicksell's merit in showing the theoretical possibility of imbalances between savings and investments under the influence of money and interest rates. He then discusses the relative importance of interest rates to investments. (At this point, however, his discussion becomes insufficient for understanding the meaning of money and interest in the Keynesian analysis of imbalances in depressive conditions, for he does not adequately examine the idea of a preference for liquidity, its role in Keynesian theory, and its implications for the formulation of policies favoring economic recovery).

passages where he offers his interpretation of the causes of inflation. He regards inflation as a phenomenon revealing situations that come close to that of full employment. His analysis rests upon the Keynesian model of excessive demand, emphasizing aspects of credit expansion and public budget deficits. It is further complemented by the idea of cost inflation based on wage raises.

Therefore, Gudín makes no purely monetarist analyses of the inflationary phenomenon. His approach to this question has always aimed to take into account the productive system's capacity to respond to demand pressures, or it has aimed to examine the question of productive costs, which falls equally within the real sphere of the productive system. The idea that Gudín is a monetarist makes sense only when viewed from two other vantage points that are external to the central axis of monetary theory: first, the expression may apply from the special point of view of structuralist theory, and secondly, from the perspective of a criticism that, in practice, the economic policies recommended by him are monetarist, both because his analysis of the economy as being under full employment is incorrect and because it does not take into account the depressive effects of stabilizing policies.<sup>9</sup>

As we may see, the view that Gudín was a conservative economist nearly always requires some careful qualifications. Not even the widely accepted idea that he adhered unconditionally to IMF's theses is altogether correct. He did show some enthusiasm for the basic propositions that guided that agency's actions within the spirit of the Bretton Woods Conference (which Gudín attended as a delegate from Brazil), i.e., the recovery and convertibility of monetary and exchange rate equilibrium. After all, Gudín was well aware of the meaning of a collapse in the gold standard system for the operation of an ideal system of free international exchange, as well as of the importance assumed by a close watch on those processes liable to cause imbalances in the

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(9) We shall revert to this point later ahead in this thesis.

new international monetary system.<sup>10</sup>

But Gudin did not always agree with the IMF upon an essential point in its prescriptions for monetary policies, i.e., the proposition that a simultaneous equilibrium should be sought in the balance of payments and in the domestic price system. He felt that exchange rate devaluations are detrimental to the struggle against inflation in that they give a feedback to the inflationary process, besides allowing for a deterioration in the terms of trade, which further aggravates the external disequilibrium. In consonance with the IMF, Gudin thought that the cause of the disequilibrium in the balance of payments could only be inflation, but he was not willing to risk frustrating the elimination of the roots of that disequilibrium in the name of a mere attempt to anticipate its correction.<sup>11</sup>

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- (10) We must bear in mind that Gudin firmly opposed the gold standard/deflation binomial. In his textbook, for instance, he used the phrase "coup de grâce on the gold standard" in referring to Joan Robinson's well-known article where she argues that the adjustments in the balance of payments of those economies ruled by the gold standard system are achieved through a retraction in activities and through unemployment, and not by means of the price mechanism, as claimed by the theory that gives support to that system.

Gudin's discussion of this topic was clearly influenced by England's disastrous attempt in the decade of 1920 to restore the value of the sterling pound to pre-war levels. He stated that "The deflation [the country] had to resort to from 1925 onwards in order to restore the sterling pound to its pre-war gold-parity level and keep it that way gave rise to the severe hardships faced by English economy during that decade, including the fall in exports, the partial standstill of the industrial apparatus, and the alarming unemployment figures". It is also likely that Gudin's theoretical concern about this question stemmed from the traumatism experienced by Brazil in 1928 owing to Washington Luís's deflationary measures, which were guided by the principles of the gold standard system (idem, vol. II, p. 118).

- (11) On the question of the causes of external disequilibrium, Gudin emphasized, in the first few editions of vol. I of his textbook, an argumentation opposing the "balance of payments theory" on the strength of Cassel's theory of a "purchasing power parity", both theories having been used in Germany at the time of World War I. As we know, according to the former, foreign imbalances are the cause of inflation, and not the other way around. As for Cassel's theory, it is used to support two complementary propositions: first, to invert the causality presupposed in the "balance of payments theory"; and second, to maintain that, save for exceptional circumstances such as wars or cyclic depressions, a permanent disequilibrium in any country's foreign accounts can only be caused by inflation.

The view that the elimination of inflation leads to external equilibrium was repeatedly used by this author, in contrast to ECLA's thesis of a structural external disequilibrium. Gudín argued that there was an inexorable tendency towards an external equilibrium owing to the permanent interdependence between export and import values. For example, a protectionist intervention, while artificially curbing imports, eventually affects exports as well — and also allocative efficiency —, as it transfers productive resources from export activities into protected domestic activities and generates a temporary superavit in the balance of payments, valorizing national currency and discouraging exports. The elimination of inflation, and not the setting up of barriers against international trade, would be the appropriate formula for reaching a position where the country's foreign accounts could be balanced, while at the same time maximizing the economic system's efficiency.

According to Gudín, the ideal mechanism for promoting equilibrium would be a policy of government-determined parity with the dollar, as an exchange rate system freely determined by the market invites speculation and generates instability. He also felt that except for situations of permanent inflation and under special conditions, such as wars and depressions, there always exists a stable equilibrium in the exchange rate. This rate could be reached by means of adequate exchange rate policies, with monetary authorities simply playing the role formerly performed, in theory, by the spontaneous mechanism activated by the monetary market at the time of the gold standard. That equilibrium rate was said to be attainable through some detailed empirical research, obviously centering around estimates of commerce and capital flow responses to the variations in the prevailing rate of exchange.

### c. The analysis of underdeveloped economies

Gudín studies economic theory with his attention focused on the problems of underdeveloped countries, particularly Brazil. As formerly noted,



he was a non-theoretical economist whose recourse to any theories was geared to the formulation of economic policies. In other words, he was an intellectual engaged with the actual issues of his country's political economy.

Gudin always stimulated the debate about underdevelopment problems. For instance, in his term as president of the Economy Institute at the Getúlio Vargas Foundation, during the decade of 1950, he arranged for local visits to be paid to Brazil by a number of outstanding economists concerned with this area of discussion, such as Nurkse, Singer, Wallich, Kaldor, Viner, and many others. As an assiduous member of the International Economic Association, he promoted a conference in Rio de Janeiro in 1957 on the topic of "Economic development in Latin America".

His position regarding the theoretical complexities of underdevelopment is expressed in a large number of texts.<sup>12</sup> In essence, he felt that a single economic theory covered both developed and underdeveloped economies, but that, from the point of view of formulating economic policies, "the diversities in structure are sufficiently marked to indicate the advisability of handling each case separately".<sup>13</sup>

Gudin often stressed the distinction between the uniformity of theoretical tools and the variability of applied analyses. For example, in his article of 1952, "O caso das nações subdesenvolvidas", he initially states that "it is entirely warranted for the United Nations to promote the organization of an Economic Commission for Latin America (ECLA) with the aim of carrying out a special study on the economic underdevelopment of those coun-

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(12) See, in particular, Gudin's following writings:

- "O caso das nações subdesenvolvidas", RBE, Sept. 1952;
- Princípios de economia monetária, op. cit., vol. II, 1952;
- "Produtividade", RBE, Sept. 1954;
- "Salário mínimo", DE, Aug.-Dec. 1954;
- "Orientação e programação do desenvolvimento econômico", DE, June-July 1957;
- "Tarefa", CM, Aug. 1956;
- "Comércio internacional num mundo em desenvolvimento", CM, Oct. 1961.

(13) Gudin, E., Princípios de ..., op. cit., vol. II, pp. 223-224

tries that may, to a different extent, be categorized as underdeveloped".<sup>14</sup> But he goes on to observe that this acknowledgement does not imply that it should be considered necessary to abandon the existing economic theory, and adds that "the equations are the same, with only their parameters varying".<sup>15</sup>

The author's approach to the study of underdevelopment is precisely that of identifying the "new parameters" and implications in terms of the free-trade economic policies to be altered as the case may require. He is interested, in other words, in the special features of underdeveloped economies that may demand distinct economic policies from the ones employed in advanced nations, so that market economy efficiency may be ultimately preserved.

We must also mention another statement in the same text where Gudin asserts that "what one must study are the characteristics of the economy in underdeveloped countries, both as a group and individually, specially with regard to the nature of the demand and supply of their products geared to the international market and their respective price and income elasticity; to reflex effects coming from abroad; to the economy's cyclic behavior, etc.; and above all, to the means of promoting capital accumulation and improving agricultural and industrial productivity".<sup>16</sup>

Two observations are in order regarding this proposal. First, in referring to the "means of promoting capital accumulation and improving ... productivity", Gudin had in mind such conventional means as attracting foreign capital, establishing a capital market, promoting education, and above all, complying to the principles of market economy. He excluded planning, was cautious with regard to raises in taxation, and did not seem to believe in overall external economies promoted by an industrialization process. Secondly, the study of the characteristics to which he refers is linked to the purpose of adapting classical postulates to the specificities of economies spe-

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(14) Gudin, E., "O caso das nações...", op. cit., p. 53.

(15) Ibid.

(16) Id., p. 54.

cializing in primary product exports. This is his purpose when, in rejecting the idea of relinquishing conventional economic theory in the analysis of underdeveloped economies, he introduces the proviso that "when 'classical school' is meant to indicate the set of principles that have prevailed virtually up to World War I, it is obvious that this can no longer apply to underdeveloped economies or even to developed ones without undergoing some significant adaptations".<sup>17</sup>

In short, Gudin's major analytical concern was to make those adaptations. This was perhaps the most characteristic theoretical feature of the leader of Brazilian economic neo-liberalism, and it pointed to his theoretical confidence in free trade. That confidence also included his skepticism as to the analytical richness of new approaches, as confirmed by the following statement:

"The 'theories' of economic development are, as we know, numerous and diversified. There are Rosenstein-Rodan and Nurkse's 'balanced growth'; Hirschman's 'imbalanced growth'; Rostow's 'take-off'; Harrod-Domar's formulae; Kahn's criterion of social marginal productivity (SMP); Galenson and Liebenstein's criterion of maximizing national savings and not national income through the rate of profits, etc. What one may say of the majority of such theories is that there is a lot of imagination in them, but little theory, whereas the theory of international trade has been with us for one and a half centuries and its fundamental postulates still stand".<sup>18</sup>

It is interesting to remark that in the very text that contains the foregoing statement, Gudin showed some awareness of the problem of the inadequacy of the international trade theory for dealing with dynamic developmental questions. He nevertheless limited himself to referring to authors like Viner and Chenery to support his belief that there is not so much of a conflict between the principle of comparative advantages and the theory of growth.

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(17) Gudin, E., "O caso das nações...", op. cit., p. 53.

(18) Gudin, E., "Comércio internacional num mundo...", op. cit., p. 23.

Gudin believed that the principle could be applied to developmental policies in combination with the essential elements in the analysis of growth. But he did not discuss this intricate and controversial theoretical point. Incidentally, his works do not show any concern with the static character of classical postulates, nor does he trouble to reexamine them in light of any elements that are dynamic in nature. His theoretical participation in the debate about development has always been geared to a qualified reaffirmation of liberal principles, and to a much smaller extent, to criticize some of the new approaches. He devoted some attention to two of these, viz., the "theory of balanced growth" and the thesis of a deterioration in the terms of trade.

The main objections to the "big push" ideas contained in the theory of balanced growth were formulated by Gudin in his comments on a paper delivered by Nurkse at a Conference of the International Economic Association held in Rio de Janeiro in 1957. First, shortage of capital and other factors were said to make simultaneous investments unfeasible in the scale required by the theory, unless the investment period were extended in an anti-economic way. Second, the nuclear idea of a market scarcity contained in the theory was claimed to be non-applicable to a substantial part of the investments, i.e., to import substitution, export production, and cost-reducing investments. Third, a "big push" would have no chance of avoiding an easy inclination toward governmental action, which would be highly detrimental. Apart from these arguments, Gudin also stated, in his comments on a paper presented by Rosenstein-Rodan at the same conference, that he did not believe the problem of capital indivisibility to be sufficiently important to warrant the strategy preconized by "big push" theorists.<sup>19</sup>

As for the thesis of a deterioration in the terms of trade, developed by Singer and his "old friend and brilliant colleague", as Singer himself

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(19) Gudin's remarks are transcribed in H.S. Ellis (ed.), Economic development for Latin America, London, McMillan, 1962, pp. 80 and 267-269.

usually referred to Prebisch, Gudin's initial reaction was one of agreement. The 1952 edition of vol. II of his textbook still stated, in regard to underdeveloped countries, that "experience seems to demonstrate a marked tendency towards a long-term worsening of those countries' terms of trade".<sup>20</sup> He also agreed to the explanation that the deterioration was due to productivity increases in developed countries being absorbed by wage raises.

In the same text, Gudin included the proviso that underdeveloped countries contribute to the deterioration owing to their inflation, which leads to exchange rate devaluations. The latter, added to an abundant supply of primary goods, determine a fall in the price of those products as measured in the currencies of importing countries. In the subsequent editions of Gudin's book and in other of his writings, this was the only idea retained to account for the deterioration in the terms of trade. He suppressed the idea of a tendency and began to explain the deterioration as an outcome of the poor management of internal monetary policies in underdeveloped countries. In a text written in 1952, the author challenges the validity of the data presented by Prebisch and refers to other works on the matter.<sup>21</sup> In his later works, all one can find is his attitude of academic respect for that thesis, combined with a questioning of its validity.

The challenge to the liberal postulates contained in those two theses, as well as to their academic legitimacy, account for Gudin's attention to the debates generated by them. After all, the "big push" thesis called for planning and Prebisch-Singer's thesis gave support to ample protectionism, thus paving the way to a far wider state intervention that Gudin was willing to accept.

Generally speaking, Gudin's analyses of underdevelopment relate precisely to a delimitation of governmental intervention in market economy. They aim to preserve liberal principles while taking into account the economic cy-

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(20) Gudin, E., Princípios de economia..., op. cit., p. 258.

(21) Gudin, E., "O caso das nações...", op. cit., pp. 55-56.

cles and those special characteristics of countries specializing in primary product exports that make them relatively unstable.

The economic policy required to accelerate economic development in underdeveloped countries should involve, in Gudín's view, a twofold concern. First, one must privilege the defense of monetary and exchange rate stability and assure the operation of market mechanisms, so that the economic system may be maintained in the path leading to maximum efficiency. Second, there must be a discrimination of the system's structural characteristics that demand some governmental intervention so as to guarantee the desired stability and efficiency. The first edition of vol. II of Gudín's book, published in 1952, already included an inestimable chapter on the economic stability of countries specialized in primary products ("Estabilidade econômica dos países de produção primária"). In that text, he listed nine of those characteristics and proposed a few compensatory measures. The nine structural causes of instability were said to be:

1. Short-term supply inelasticity of permanent crops, combined with an uncertainty in the supply of temporary crops, which are vulnerable to climatic conditions, the result being an inability to vary production in accordance with the market, as compared to the industry.
2. Demand inelasticity of food products, added to the considerable price fluctuations generated by it when combined to supply inelasticity. Gudín regarded the demand as inelastic both in terms of prices and income, but noted that income inelasticity was low as compared to price inelasticity.
3. Price inelasticity in the demand for raw materials in industrialized countries and a decreasing importance of those products in modern industrial activities as a result of technological advances.
4. Strong cyclic fluctuations in primary product prices following income fluctuations in consumer countries.

5. Little diversity in export products, with a resulting vulnerability to cyclic fluctuations.
6. Increased vulnerability owing to the fact that the international movement of capital aggravates cyclic fluctuations instead of attenuating them.
7. Worsening of the terms of trade as a result of exchange rate devaluations caused by inflation, combined with abundant supply and price inelasticity in the demand. (As formerly noted, in the 1952 edition Gudín also accepted Singer and Prebisch's thesis, which was later abandoned).
8. Marked inelasticity in the demand for imports, which are basically composed of essential goods.
9. Marked demographic growth.

In later editions of his book, Gudín added a tenth characteristic, i.e., the "vulnerability to inflation resulting from a lack of reserves of means of production".<sup>22</sup>

No ECLA economist in the early 1950s would leave out such an important acknowledgement of structural weaknesses in countries specializing in primary product exports. He might perhaps give Gudín's arguments a new order, change his emphasis on certain aspects, confirm Singer-Prebisch's thesis, and add a few other elements, but he would validate the foregoing list most emphatically. He would probably conclude by maintaining the thesis that foreign imbalances are of structural origin, as well as the thesis that the solution for the disequilibrium lies in industrialization. This argument would then be combined to that of structural unemployment and to the dynamic gains of the industrialization process, so as to support a planning strategy in that process.

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(22) Gudín, E., Princípios de economia..., op.cit., vol. II, p. 239, 1967 edition.

Gudin's view was quite another thing. According to him, a number of compensatory measures should be implemented to attenuate fluctuations in the demand for and prices of primary products, so that monetary and exchange rate stability might be attained, thus recovering the market system's overall efficiency.

Incidentally, we must bear in mind that ECLA's economists also advocated compensatory measures for the aforementioned instability. In several ways, the proposals later conveyed through UNCTAD — a creation of Prebisch's in the decade of 1960 — were not far from what Gudin had in mind when, in his capacity as Brazilian delegate at the Bretton Woods Conference, he proposed a special meeting to discuss this subject.<sup>23</sup> But there was a crucial difference in terms of the objectives pursued. ECLA's purpose was to attenuate the problem of the bottleneck in the balance of payments, which in that agency's view was a structural one, and thus render industrialization feasible; Gudin's objective was to attain exchange rate and monetary stability, and to guarantee the achievement of the benefits promised by the theory of comparative advantages. In other words, his purpose was to reach the "normality" required for a hypothetical efficient operation of market economy.

Gudin refers to "preventive measures" and "structural measures" to offset structural weaknesses. Control over prices and over the production of primary goods is included among the compensatory preventive measures. He refers to these as a compensation through goods (a build-up of regulating stocks), in contrast with other forms of compensation that are monetary in character. The latter consist of checking the impact of inflation in times of prosperity, for instance, by absorbing a portion of export revenues through taxes or by freezing them in the form of blocked credit balances or non-transferable certificates, and then liberating those funds in times of depression as an

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(23) See a report by Roberto Campos (who also attended the Bretton Woods conference) on this episode in FGV, Eugênio Gudin visto por seus contemporâneos, op. cit., pp. 123-129.



anti-cyclic measure. The drawback in discouraging production in times of price rises and stimulating it in times of price decreases should be avoided by building up compensatory stocks. Gudín explains that there is "an obvious analogy between monetary compensation and compensation through goods, the former aiming to soften the effects of world price fluctuations on the country's economy, and the latter aiming to soften price fluctuations themselves".<sup>24</sup>

As for the "structural measures", Gudín referred to improvements in the national financial system and a diversification of production and exports. In the context of his discussion about the need to diversify the productive structure so as to reduce underdeveloped economies' vulnerability we find one of his most explicit declarations of faith concerning the question of industrialization:

"Another measure to promote a structural strengthening in the economy of those countries that specialize in producing primary goods is a gradual industrialization, so as to diversify the economy and partially escape from cyclic drawbacks. Industrialization per se is by no means a guarantee of increasing the per capita income; many industrialization processes have been misguided or influenced by non-economic goals. However, when industrialization is processed with the use of labor that has become superfluous in the agricultural sector, owing to improvements in its technical productivity, and when it can rely on the technical and administrative capacity required for an efficient production, this undoubtedly represents an excellent means of strengthening the economy in terms of its structure".<sup>25</sup>

The question of the relation between unemployment and industrialization received some attention from Gudín. As a coherent and consistent neo-liberal thinker, he recognized that "the principle of comparative advantages begins to operate only after full employment has been attained".<sup>26</sup>

Gudín did not feel that cyclic fluctuations seriously affected the

(24) Gudín, E., Princípios de economia..., op. cit., vol. II, p. 264.

(25) Id., p. 240.

(26) Gudín, E., "O problema do equilíbrio monetário internacional e as tendências atuais do Fundo Monetário", D.E., May 1953, p. 25.

level of employment in underdeveloped countries;<sup>27</sup> but he acknowledged the difficulty in expanding employment indefinitely in export activities. On the other hand, he was always rather reticent regarding the conclusions to be drawn in this respect. It is worthwhile quoting the complete passage where Gudín gives us the best account of his views on this problem:

"If it is true that economies predominantly specialized in primary products suffer from the two congenital deficiencies we have pointed out — the difficulty in expanding their exports volume in proportion to the increase in purchasing countries' real income (Engel's law), and the cyclic instability in their product prices, combined with all sorts of repercussions it generates — it is only natural that underdeveloped countries have tried to progress into a more favorable and less unstable type of economy by taking steps toward industrialization.

There is one case in which an industrialization policy is altogether warranted, i.e., the case of overpopulated countries, where one definitely verifies the existence of disguised unemployment, as in India or Egypt. In those cases, the value of labor is almost negligible in the calculation of comparative advantages. In a slight overstatement, one might say that labor is free of charge.

On the other hand, we also have the opposite situation of countries that are exceptionally gifted for agricultural production, as is the case of Argentina, Ukrania, or the lower Danube plains. In such cases, the congenital disadvantages of the type of economy are largely offset by the great comparative advantage of an agricultural production that is obtained at very low real costs".<sup>28</sup>

Gudín recognizes in the foregoing quotation the validity of two arguments for industrialization, viz., the one commonly referred to as Engel's law and that of a reduction in the vulnerability to cyclic fluctuations. In other texts he also refers to the idea of an "infant industry", accepting the validity of some protectionism, and to the idea that industry has an advantage over agriculture in that it accepts with greater ease a transplantation

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(27) Gudín, E., Princípios de economia..., op. cit., vol. II, p. 223.

(28) Gudín, E., "O caso das nações...", op. cit., pp. 64-65.

of techniques developed in advanced countries. But his acknowledgement of pro-industrialization arguments has always accompanied texts that had a generally conservative character, showing a predominance of recommendations to avoid any premature transgressions of market rules.

In fact, the four arguments above have little strength in Gudín's overall views. Even his concern about the vulnerability to economic cycles, which was perhaps greater in the forties, tended to decline in later years of prosperity; his analysis of Brazilian exports essentially stresses the mistakes made in economic policies while scarcely emphasizing the problem of an insufficiency in international demand; and for all his ideas about a "transplantation of techniques" or an "infant industry", what really matters in his thought is his total omission of the fundamental idea of a rise in productivity by means of external economies brought about by the industrialization process. In effect, Gudín did not seem to acknowledge the theoretical possibility that the market could be a poor signalizer of an efficient resource allocation, except, as we have seen, in the case of international trade, given the structural characteristics of underdeveloped economies. Even so, industrialization is admitted of only under certain circumstances as a compensatory measure, but not as a process of dynamic attainment of a higher productivity in the entire economic system.

The conservative character of his reference to pro-industrialization arguments becomes apparent in the foregoing quotation: industrialization is not warranted in Argentina and Ukrania. In the case of Brazil, whose soil is not quite as fertile, Gudín's position was that one must wait for a raise in agricultural productivity before liberating the scarce labor force step by step, and only then proceeding slowly towards industrialization. The existence of full employment eliminates the justification for immediate industrialization policies. This and other basic aspects of Gudín's thought concerning Brazilian economy will be the subject of the following section.

d. Gudin's views regarding Brazilian development

In the two preceding sections we have made an overview of the analytical elements guiding Gudin's thinking. This will facilitate our presentation of his views regarding the major issues related to Brazilian economic development. For expository purposes we have organized them in five items:

- i. Development and industrialization
- ii. Protectionism and planning
- iii. Control and financing of investments: state undertakings, taxation, financial system, and foreign capital
- iv. Monetary issues: inflation and the balance of payments
- v. Distributive questions: wages, income distribution, and land reform.

The following review privileges the author's conceptual stance relative to the foregoing questions.<sup>29</sup> His strictly applied analysis pertaining to actual conjunctures will be the object of more detailed considerations in Part II of this dissertation.

i. Development and industrialization

Economic development, to Gudin and any other economist, is essentially a process of increasing productivity. The difference between his neo-liberal views and those held by other strands of thought lies in the conception of the ways to promote that process. Developmentalists felt that a decisive

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(29) Most of Gudin's abundant production of articles on Brazilian economy during the period under examination appeared in the daily press, particularly in newspapers belonging to the Diários Associados network, and in O Globo and Correio da Manhã. His most important articles were reprinted in Digesto Econômico and in a selection of papers in book form published by Agir, a local publisher, in 1965, under the heading Análise dos problemas brasileiros. His various lectures delivered at the National Trade Confederation were published in that agency's journal, Carta Mensal. Another important reference source is Inflação, importação e exportação, café, crédito, desenvolvimento e industrialização, published by Agir in 1959. In Revista Brasileira de Economia the reader will find approximately a dozen theoretical and applied articles that are, as a rule, more academically-oriented.

industrialization policy was indispensable. Gudín disagreed with this strategy and opposed most of the policies substantiating it in practice.

In his view, the chief instrument of development was the free movement of market forces. He stressed that in order to assure its efficient operation, it was necessary to preserve the monetary and exchange rate equilibrium and avoid governmental intervention in the price mechanism. He admitted, for the reasons stated above, of a slow and progressive industrialization that would absorb the labor surplus resulting from technical advances in agriculture. But his theoretical concessions were never actually transformed into any material attitudes supporting industrialization, nor did he bother to be explicit about the type of specific support to industry that he would recommend when once the appropriate time came. He felt that Brazilian economy suffered from full employment and full capacity, and that under the circumstances, industrializing policies were artificially robbing agriculture of its productive factors, affecting both the country's exports and the agricultural production for the domestic market. They were said to determine a reduction in foreign trade and to cause inflation, thereby decreasing the economic system's efficiency. In practice, Gudín systematically opposed a large number of governmental measures in support of industrialization while advocating monetary and exchange rate stability and the liberal principles of allocative efficiency. Where his opposition was not explicit, he held on to a political attitude of omission that was indicative of his skepticism.

The emphasis of his pronouncements on the problem of Brazilian underdevelopment lay on a combination of two often reiterated ideas: first, that "the most serious of national economic problems is low productivity",<sup>30</sup> and second, that "industry is not synonymous with prosperity, just as agriculture is not synonymous with poverty. ... Only a highly productive industry or agriculture is synonymous with prosperity".<sup>31</sup>

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(30) Gudín, E., "Produtividade", op. cit., p. 9.

(31) Gudín, E., "Industrialização e improdutividade", in Inflação, importação e exportação..., op. cit., p. 210 (Gudín's italics).

Low productivity enhances the illusion that agricultural specialization is the cause of poverty. It also creates the illusion that there exists unemployment or disguised unemployment, in Gudín's opinion:

"Except where it stems from climatic events or crop failures, unemployment is by no means usual in Latin American economic systems. The assertions regarding disguised unemployment in Latin America come from those who mistake it for 'low productivity' or those who wish to find some justification for an unchecked transfer of agricultural labor into the industry. The worst of it is that this transfer, more often than not, is made from low productivity agriculture into low productivity industry, although higher wages become possible owing to the fact that the latter is isolated by protection from international competition".<sup>32</sup>

At some rare points one can find qualifications in Gudín's writings regarding the question of labor availability, as in the curious passage quoted herebelow, which contrasts with the foregoing one and seems to imply that Gudín believed that harvesting coffee or planting manioc required literate or skilled workers:

"Another circumstance occasionally hindering the realization that productive factors are limited is that, in our country, the number of unskilled workers, i.e., of 'outcasts' who never received any formal education or professional training, is unfortunately overabundant. But this does not alter the fact of a scarcity in the set of productive factors, since this elementary labor is but one single factor — and an increasingly less important one thanks to machinery advances — and nothing can be produced unless one can rely on a set of factors".<sup>33</sup>

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(32) Gudín, E., "Inflação na América Latina", in D.C. Hague (ed.), Atas da Conferência da A.E.I., 1962, USAID, pp. 357-358.

(33) Gudín, E., "O que é inflação", in Inflação, importação e exportação,..., op. cit., p. 17. According to an account by Prof. Margareth H. Costa, who had been one of his students in the early 1950s, Gudín used to argue in class that unskilled labor unemployment did not curb inflation, as the latter resulted from the lack of an overall availability of complementary productive factors. The idea that the shortage of capital in Brazil made part of the labor available in the economy unproductive, thereby maintaining productive capacity's rigidity, was often used by Roberto Campos to account for the compatibility between inflation and

In any case, Gudin's reasoning was based on the idea that Brazilian economy, as the remaining Latin American ones, suffered from low productivity and full employment, and not from a specialization in agricultural activities and unemployment. This view stood as the foundation of his entire position regarding Brazilian development, industrialization policies, and monetary and exchange rate policies. He frequently reiterated it in different analytical contexts throughout the period covered by this thesis, even in the most advanced stages of the industrialization process, already in the late 1950s.

Rather ironically, at that time, Roberto Campos, a Brazilian economist for whom Gudin showed great admiration and with whom he agreed on some fundamental issues, such as monetary and exchange rate policies and the policy of attracting foreign capital, formulated and executed the Target Plan, which was the conscious basis for the implementation of heavy industry in Brazil. In that more advanced stage of the process, when its irreversibility was becoming apparent, Gudin's criticism of industrialization policies began to be more emphatically addressed to projects relating to certain segments of heavy industry, as in the case of the automotive and naval industries.<sup>34</sup>

The following quotation, extracted from a discussion where Gudin compares the theories of "balanced growth" and "imbalanced growth", is a fine example of his views about the implementation of heavy industry:

"The scheme of balanced growth, however, has the virtue of proposing an 'horizontal development of light industries' whereby developing countries may continue to benefit from the comparative advantage of importing heavy equipment that requires more complex techniques and a higher level of capitalization. Hirschman, on the other hand, adheres — rather mistakenly, in my opinion — to a 'vertical' industrial expansion in the various stages of production. The serious

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unemployment. Gudin, on the contrary, did not use it in most of his texts dealing with this problem and, in those instances when he did use it, the idea was not explicitly stated.

(34) See, for instance, a series of articles on "Industrialização e Panacéia" in Análise dos problemas brasileiros, op. cit., pp. 194-205.

flaw in this policy is becoming evident among us as a result of the protectionism we have adopted, which was generalized to all sorts of industries. When a light industry has to renew or update its equipment, it is compelled to pay twice the price to buy nationally produced machines, which, by the way, generally have a lower quality than foreign ones".<sup>35</sup>

In short, Gudin's project for Brazilian economic development anticipated a light industrialization at some point in the future — depending upon technical progress in agriculture and upon overcoming the situation of full employment — and heavy industrialization at an even remoter date. As for the present, his strategy consisted of a number of measures aiming to increase the productivity of the existing economic structure: technical assistance and selective credit to agriculture, elevation of educational standards, and above all a policy of monetary stabilization and minimization of the government's intervention in market mechanisms. It also included support to a rise in the national savings rate through the policy of attracting foreign capital and structuring the national financial system; this latter step should be taken after inflation had been subdued. Gudin further admitted of a need to gradually provide the economic system with a transportation and energy infrastructure, provided the state did not replace private administration.

What really matters in this set of state measures to support development are not the measures as such, as they may fit very well into industrialization projects, but rather the fact that they are entirely separated from projects of that kind. The measures were expressed as an alternative to the prevailing or recommended industrialization policies, and specially in opposition to things like tariff protection, planning, taxation raises, state investments, control over foreign capital, and potentially inflationary investment programs.

In effect, rather than a formulator of developmental policies, Gudin

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(35) Gudin, E., "Comércio internacional num mundo...", op. cit., p. 25.



was a critic of the policies in force. This is illustrated by his frequent and expressive reassertions of the idea that "in Latin America, development consists far less in promoting new investments than in minimizing the effects of the mistakes often perpetuated by its rulers".<sup>36</sup> He devoted himself with unquestionable enthusiasm to the task he deemed so fundamental.

## ii. Protectionism and planning

Throughout the period 1945-1964, Gudín continuously expressed his views concerning these two basic instruments for re-directing the allocation of resources in favor of industrialization.

Concerning protectionism, as we have seen, he accepted the "infant industry" argument, but argued for a reduction in the level and time extension of the service charges prevailing in Brazil, as well as for a better selection of the industries to be protected. This did not prevent his acceptance of the "infant industry" argument, but it obviously changed the political meaning of his manifestation in this respect. Moreover, he was not familiarized with other protectionist arguments. His acceptance of the idea of a gradual raise in productivity seemed restricted to pioneering productive units taken individually, as he had a total disregard for the potential external economies stemming from the installation of a complete industrial apparatus. Perhaps this was so because, even though the idea was widely used in those days to favor planning and (indirectly) protectionism, it was seldom employed in the Brazilian debate. Gudín also seemed unaware of ECLA's argumentation in favor of <sup>tariffs</sup> ~~service charges~~ that could offset the deterioration in the terms of trade, which was widely diffused. In discussing Prebisch's thesis, he merely refuted its empirical validity, but never established any relationship between the deterioration in the terms of trade and protection-

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(36) In another text, he stated: "The lag in backward countries stems less from what they fail to do to accelerate development than from what they actually do to delay it" (Gudín, E., "Os inimigos do desenvolvimento", in Análise dos problemas brasileiros, op. cit., p. 34).

ism, as Prebisch would do. Even upon acknowledging a limited expansion in the demand for primary products, Gudín spoke of a slow and gradual industrialization and did not examine the ways to promote it, so that he never came upon the logical requirement of viewing protectionism as an instrument of industrialization, regardless of the idea of an "infant industry". The only other protectionist argument discussed by him was Manoilescu's, which was used by the National Confederation of Industries in the 1930s and 1940s and which Gudín rejected on the strength of Viner's criticism.<sup>37</sup>

Gudín's references to this topic were systematically meant to defend the need to limit the level and time extension of tariff applications — he seemed to view a 25% figure and a 20-year span as reasonable ceilings — and to select the sectors worthy of this protection. Moreover, his references invariably conveyed his scepticism as to the possibility of enhancing competitiveness in Brazilian industry. He claimed that the tariffs in force were too high and generated excessive profits, situations of monopoly, and a discouragement of raises in productivity. Furthermore, they were introduced into any industrial sector with none of the criteria required for selecting potentially competitive industries in relation to advanced countries.

Using a rhetoric of championing consumers' interests, Gudín launched a decisive attack against the tariff levels required by Brazilian industrialists, in a historical debate with Roberto Simonsen back in 1944:

"In enforcing the productivity policy for which the Brazilian people has been claiming, it is important to be on the alert to the insidious, passive resistance of the reactionary interests of industrial groups and associations that, above anything else, are intent on defending the private interests of already established industrialists, while developing a disguised opposition to and scheming up some ingenious manoeuvres against anything and anyone that may compete with them".<sup>38</sup>

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(37) See Viner, J., "Mihail Manoilescu on the theory of protection", in International economics, Glencoe, Ill., Free Press, 1951, pp. 119-121. (This article was originally published in 1931).

(38) Gudín, E., "Ramos da política econômica", in Controvérsia do planejamento to na economia brasileira, Rio de Janeiro, IPEA/INPES, p. 129.

The tone of Gudin's attacks against industrialists became somewhat more attenuated or impersonal in the twenty years that ensued, but his opposition remained unaltered. In a conference delivered at the National Bank for Economic Development in 1956, after asserting that the Brazilian industrialization policy consisted of "manufacturing anything at all costs", Gudin voiced the following protest:

"What I do oppose is this lazy industry that amasses fortunes for a privileged minority at the expense of consumers, in a regime of high prices and very low productivity".<sup>39</sup>

Gudin's opposition to Brazilian protectionism was corrective in nature, whereas his opposition to planning had a preventive character. At that time, the concept of planning was almost synonymous with efficient industrialization in the terminology of Latin American and Brazilian developmentalists. According to their conceptions, it was the instrument required to overcome the obstacles raised by underdeveloped economic structures against industrialization, and therefore against development. To Gudin, it corresponded first and foremost to a disquieting threat.

Eugênio Gudin's opposition to planning incorporated a number of elements from liberal thinking. It was not quite in the nature of a criticism to the industrialization process under way, as in the case of his attacks against the tariff structure. After all, the only instance of really decisive planning in the Brazilian industrialization process — the Target Plan — was the great historical surprise of the decade of 1950 and few people were able to anticipate its effects. Moreover, that was a sample of partial planning conceived of in a non-inflationary way and elaborated by an economist whom Gudin trusted, i.e., Roberto Campos. Thus, from the point of view of the actual process, his opposition to planning reflected at the very best an anticipation of what might turn out to be, should it succeed, a reinforce-

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(39) Gudin, E., "Produtividade", op. cit., p. 22.

ment of the industrialization policies under way, to which Gudín was firmly opposed.

Rather than a criticism of the prevailing economic policies, Gudín's opposition had an essentially doctrinary quality. The theme posed him a two-fold challenge. First, he felt compelled to spread the idea of the superiority of market mechanisms over governmental intervention. And second, he felt compelled to disclose the identity between planning and socialism. His reflections in this respect extended to and were combined with considerations about the meaning of the increasing implementation of state-owned companies in the country, which he felt to be sowing the seeds of socialism just as planning did.

Gudín was a protagonist in two historical debates over planning, one of them with Simonsen, in 1944/45, and the other with Prebisch in 1952/53. But he never engaged in any really theoretical discussion about the efficiency of market allocative mechanisms in relation to investment programming. He was probably aware of the debate involving theorists like von Mises, Robbins, Lange, and Dobb, for he willingly used to quote the statements by the former two authors where they categorized planning as the great myth of the day. Gudín himself, however, did not go into any considerations regarding the debate, nor did he discuss theoretical arguments for planning in underdeveloped countries, i.e., the idea that specially in such countries market mechanisms fail to signal efficient resource allocations, given the weight of certain factors like capital indivisibility, market imperfections, external economies, etc.

In his comments on planning, given the vagueness of the concept, Gudín viewed a certain amount of planning as valid, provided the state did not trespass the limits of intervention, such attitude representing, in his own opinion, the maximum support to private enterprise that one could admit of.

This type of assessment appeared, as a rule, in the context of a reaffirmation of liberal principles, as illustrated by the following passages

quoted from a conference made in 1951:

"Taken individually, all elements of any economy are planned. The government plans its activities, its revenues and its expenditures; every company plans its own production volume, its investment program, its revenues, expenses, and profits. The industrialist, the farmer and the tradesman, all of them plan their activities.

But what does such planning obey? Who guides it? Here we touch upon the central aspect of the problem.

In Liberal Economy, production planning is dictated by the DEMAND and its indices, which are (in the short run) current prices, and above all, anticipated prices.

It is a regime of uninterrupted suffrage by consumers, who dictate what must and must not be produced. This is Economic Democracy."<sup>40</sup>

"But Liberal Economy or Economic Democracy do not imply a 'laissez-faire' in the sense of a lack of government or governmental interest in the economic order. Their cardinal tenet is that the state must, in principle and by every possible means, avoid any interference in the field of private economy. The state may facilitate, stimulate, and reward. It may, in times of depression, promote the execution of public works programs designed to stimulate economic activity. But it must not manufacture, it must not plant and it must not engage in trade, for private economy has a vastly superior number of elements for those purposes."<sup>41</sup>

Gudin felt that even as a mere analytical exercise planning methodology was rather questionable, as "the march of progress and development in the country depends on political, social, and economic factors ... and cannot be fitted into economists' quantitative forecasts".<sup>42</sup> He criticized ECLA's methodology, for instance, on the grounds that it was based on a relation between savings and the capital/product ratio, i.e., on the "application of Harrod-Domar's formula, which is certainly most interesting and elegant ... but must not be taken seriously by anyone."<sup>43</sup> He also stated that ECLA's own estimates of the capital/

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(40) Gudín, E., "Planejamento econômico", D.E., April-May 1951, p. 33.

(41) Idem, p. 34.

(42) Gudín, E., "Orientação e programação...", op. cit., p. 24.

(43) Idem, p. 25.

product relation lost their validity by not taking inflation effects into account.

For all his criticisms, Gudín scarcely attacked the question of the deficiencies in the theoretical instruments of planning. He was far more concerned with the gradual insertion of state control instruments into Brazilian economic activities, which he never tired of denouncing. In his debate with Simonsen in 1944, Gudín ironically stated that Stalin had been right in denouncing a contradiction in the planning efforts following the line of the American New Deal:

"In fact, there is no way to reconcile the two regimes. Liberals seek to preserve and improve the economic order that collectivists wish to destroy.

In liberal philosophy, the ideal state of affairs is a market with free competition and mobility of productive factors; it is production regulated by an uninterrupted suffrage of prices, translating the effective demand for goods and services. In collectivist philosophy, the ideal state of affairs is a perfect plan imposed by an all-powerful authority. For liberal philosophy, the economic system is the path to democracy. For collectivist philosophy, it is the totalitarian state. The difference between these two philosophies is radical and irreconcilable".<sup>44</sup>

In later years, in light of the experiences of European social democracies, Gudín shirked stating his views in such radical terms. His fears began to find expression in the idea that "the hypertrophy of the state's economic power entails a tendency toward its political impotence and a consequent erosion of the democratic system".<sup>45</sup>

Engaged as he was in the political life of Brazilian society, Gudín's major goal could not be a hypothetical future adherence to planning. He worried about the economic policies in force, which he considered interven-

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(44) Gudín, E., A controvérsia do planejamento..., op. cit., p. 68.

(45) Gudín, E., Análise dos problemas..., op. cit., p. 403.

tionist, and specially about state investments in the infrastructure of, public services and heavy industry. In view of that he wrote a countless number of articles denouncing the growing governmental presence in the production system.<sup>46</sup>

### iii. Control and financing of investments

The question of the state's presence in the direct administration of basic economic activities such as transportation, energy, oil, and the steel industry, was nearly as crucial in the debate about Brazilian development as the question of industrialization itself. For nationalists, it was a kind of symbol of industrialization, which they claimed to be unfeasible if left in the hands of the "weak national private enterprise", or to the discretion of the "unstable" and "hardly constructive interests" of foreign capital. For liberals in general and Gudín in particular, it meant a threat to capitalism and the sign of a tendency toward socialism; it was also claimed to cause a serious inefficiency there and then. State intervention therefore meant, first and foremost, a growing threat to Brazilian democracy. A proof of this lay in its own origins, which Gudín claimed to be the dictatorial phase of Vargas's first presidential term, the so-called "Estado Novo" (1937-1945):

"The tendency towards socialization of the means of production in our country is a byproduct of the Dictatorship. It was under that political regime that the movement toward economic socialization had its start, without any hearing of or consultation to the nation".<sup>47</sup>

In another expressive article written along the same lines, Gudín poses a question:

"How can the operation of democratic institutions be assured through an equilibrium among the three powers in a country where the Execu-

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(46) Several such articles can be found in Análise dos problemas..., op.cit.

(47) Gudín, E., "Estatização de nossa economia", Carta Mensal, Sept. 1957, p. 256.

tive power, through state enterprises, holds an increasing control over national economy?"<sup>48</sup>

Furthermore, state intervention was said to be an erroneous way of administering investments in that the state, given its own nature, could not be a good administrator; and it was said to be a mistaken way of financing them in that this was invariably based on tax raises, if not on inflation.

According to Gudín, the state — and particularly the Brazilian state — had enormous handicaps when compared to private initiative:

"The state has two major handicaps. One of them stems from the primacy of its political role and from the fact that (in any democracy) the executive power must tolerate the intromission of politics into the administration of state enterprises. It is the so-called 'political management'. The state is ruled by a party and the party in power can neither do without the support of its constituency nor repeatedly fail to cater to it. Another state handicap is that it cannot do without the bureaucracy that controls the complex machinery of public administration, without which it would risk being subjected to all sorts of fraud. And bureaucracy is, in its very nature, a routinely machine whose components, poorly selected as they generally are, rely rather on political support and on the dispersion of responsibility than on their personal worth and efforts. These handicaps grow in importance in a country such as ours, where public administration's efficiency is still very low".<sup>49</sup>

Gudín continually attacked state undertakings, which he considered inevitably inefficient. He coined the expression "xenophobic nationalism" to refer to hostility toward foreign capital and claimed that entrepreneurial vigour had never been lacking in Brazil, "neither in the South nor in the Northeast, the poorest area in the country, where I have spent many years of my life".<sup>50</sup> Perhaps the most expressive of his criticisms was, rather sig-

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(48) Gudín, E., Análise dos problemas..., op. cit., p. 403.

(49) Gudín, E., "Planejamento econômico", op. cit., p. 35.

(50) Gudín, E., "Orientação e programação...", op. cit., p. 26.



nificantly, the one made at a conference held at the BNDE in 1956:

"The younger and poorly informed observer may think that the very existence of this Bank for Economic Development, which attends specially to transportation and energy problems, attests to the incapacity of private initiative in those sectors.

For those like me, however, who have accompanied pari passu the life of public service enterprises during the last fifty years, this Bank's existence is proof of a lastimable incapacity on the part of governments that have abandoned companies to the wrath of petty politics and demagoguery, denying them service charges that might allow them to live, unilaterally revoking contractual clauses, and even — as in the case of the 1934 Water Code — threatening to confiscate them altogether should their equipment fail to work for 72 hours running!"<sup>51</sup>

Gudin attacked virtually all of the state's undertakings. His main targets, however, were transportation companies and the project for creating a state-owned holding in the energy sector — Eletrobrás. For a long time, Gudín himself was a director of large foreign companies operating in those two sectors and complained bitterly that private capital had been driven away from them owing to an unfair and inefficient policy of near-freezing of service charges. His attacks alternated irony and harshness. There was irony in the title given to a series of his articles, headed "Descalabrobrás",<sup>52</sup> or in a passage where he hinted at the inefficiency of the state's maritime transportation company by saying that he had made the acquaintance of "the Coast Navigation Company at a time when its services were so exemplary that one could set one's watch by the departure of its steamers".<sup>53</sup> He alternatively used a bitter tone, as in one of his references to the control over service charges based on the Water Code, where he stated that "the history

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(51) Ibid.

(52) The equivalent of "Absurdity-brás", the suffix -brás being an abbreviation of Brazilian.

(53) Ibid., p. 27.

of electric power industry in Brazil is the history of a gradual but merciless confiscation of private property".<sup>54</sup>

In addition to his denouncement of the socializing nature of state investments and their inefficiency, Gudín also attacked their form of financing. A permanent emphasis is given in his texts to the fact that the operationalization of an "invasion" in the field of private initiative takes the form of a spurious appropriation of private resources through taxation raises and inflationary deficits in the public budget.

In an article dated 1957, for instance, Gudín supplies some data to explain "how the state bleeds private savings" and claims with indignation that the percentage of the population's savings absorbed by the government reached 52%. Perhaps his most significant expression to designate the process of financing state investment expansion through taxation and public deficits was "the bleeding of the Brazilian people", used in a criticism addressed to Kubitschek's administration.

Gudín felt that once a given taxation ceiling had been reached (and he seemed to regard 20% of the Gross Domestic Product as a reasonable figure), any increase in the national savings required to accelerate development should be left within each individual's discretion, and not stipulated by a governmental imposition. Moreover, given the conditions of full capacity and full employment, added to the low income and consumption level, such an increase should rely rather on the slow process of raising productivity than on individual decisions.

For liberally-oriented economists like Gudín, the only two resources that were legitimate in the attempt to strengthen the existing investment capacity were building up a financial system and attracting foreign capital. Gudín was an enthusiastic champion of the latter, but seemed sceptical in regard to the former.

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(54) Gudín, E., "Descalabro-brás", in Análise dos problemas..., op.cit., p. 391.

Among Brazilian neo-liberal economists, Octávio Gouveia de Bulhões, rather than Gudin, was the one who seemed to have greater confidence in the idea of building up a financial system in Brazil for the purpose of increasing savings and channelling them to productive investments. Bulhões cherished a project for a financial system that would include an active market of long-term bonds.

Every now and then Gudin expressed his views regarding the recurrent question of the creation of a Central Bank to substitute SUMOC. However, his concerns about this topic were chiefly related to the question of monetary and exchange rate control policies. As a rule, he did not approach the problem of organizing a capital market. He probably viewed it as a prospect with little possibility of success, given the country's inflationary situation. At a time when his spirits were low, he even showed some scepticism as to the very usefulness of creating a Central Bank and stated, for example, that "Central Banks are not for those who want them, but for those who have attained a minimum standard of financial and administrative order to enable their effective operation".<sup>55</sup> And as the country witnessed a discussion around the creation of a mechanism for applying monetary correction to bonds — an instrument that would assure the feasibility of a later expansion of the country's financial system —, Gudin qualified this proposal as "a project that discredits the cruzeiro", drawing attention to the fact that indexation systems rigidify the inflationary process. He was also probably disturbed by the fact that a project approved in 1962 for the issue of government bonds to clear deficits, which was viewed as legitimate by Gudin himself, could end up providing an additional abundant source of resources to support "socialist-oriented" governmental investments.

In Gudin's opinion, the basic means of economic development support to which underdeveloped nations must resort was the attraction of foreign cap-

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(55) Gudin, E., "Alguns aspectos do problema do banco central", D.E., Dec. 1954, p. 8.

ital. He was an indefatigable advocate of all forms of foreign investment in all sectors of activity. He argued for them even more emphatically in the case of those sectors with a high capital/product relation and long maturity terms, such as public services.

Politically speaking, the question of foreign investments was the most explosive topic in the Brazilian developmentalist debate, being paralleled only by the heated debate about land reform. First of all, this question related to the state investment issue, in that the theme was often brought up with the purpose of allowing a political choice between the two only economic agents that were able to afford undertakings requiring huge amounts of capital — the state and foreign capital. Secondly, it was the ideological symbol of old imperialism, and from the nationalist perspective it represented an opposing force to industrialization. For radical economists, imperialism in the form of risk capital appeared under the guise of a contribution to development, only to repatriate huge profits accrued by the monopolistic practices that its higher competitive capacity made possible. Viewed from the perspective of moderately nationalist conceptions, foreign capital could only make a contribution if its actions were under strict control. The question progressed so far along this path in the post-war years that, already in the mid-fifties, the profit remittance issue had replaced that of customs tariffs as a focus of nationalist struggles in the field of foreign policies.

Gudin fought with permanent enthusiasm, albeit perhaps with lowering spirits, against all projects for controlling foreign activities within the country. During his term as Minister of Finance, he was the author of SUMOC's controversial Instruction no. 113, whereby foreign companies were authorized to import capital without any exchange coverage — a measure which, as we will see later on, was attacked by both Brazilian industrialists and nationalists of several different trends. Gudín admitted of discussing those arguments he considered logical, but showed great contempt for those he deemed to

be ideological, as can be seen in his comments on the projects for profit remittance control that were going through Congress channels in the early sixties:

"... the avalanche of projects toward this end can only be accounted for by an emotional or irrational motivation. In fact, it is a combination of both. It is the genetic offspring of our nationalist communism, which is a hybrid of true communism, its partner, state socialism, and a group of naïve collaborators whose dominant trait is stupidity".<sup>56</sup>

However, Gudín discussed in different texts the question of foreign capital contribution, which he felt to give rise to some legitimate if mistaken doubts. In his conception, foreign capital contributes savings, administrative and entrepreneurial capacity, and know-how. He disagreed with the nationalists who accepted the idea of external financing but rejected that of risk capital, and claimed that the latter was better than the former. His argumentation was that, besides bringing technical and administrative organization into the country, direct investments are distinct from loans in that, unlike the latter, they follow an opposite path to economic cycles, thereby reducing their effects on the balance of payments of underdeveloped nations.<sup>57</sup>

But Gudín stressed that this did not mean that those nations were in a position to opt for either of the two forms of financing: they should select both.

The general course followed by the Brazilian debate about this topic, which centered increasingly around the question of profit remittances, led Gudín to emphasize that foreign capital contribution should not be gauged by its effects on the balance of payments, but rather by what he termed the "enrichment effect". Although the balance of payments might eventually show a deficit in its capital account, the importance of foreign capital to develop-

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(56) Gudín, E., Análise dos problemas..., op. cit., p. 327.

(57) Gudín, E., "O capital estrangeiro e o desenvolvimento", Carta Mensal, Aug. 1958, pp. 10-11.

ment lay in its impact on national income:

"Foreign capital investments must not be appreciated from the perspective of their possible and purported effects on the country's balance of payments, but from the vantage point of the ENRICHMENT EFFECT to which they give rise.

This 'enrichment effect' is nothing but an increment of national income either in the form of salaries, wages, and raw material acquisition, or in the form of interest, profits, or rents".<sup>58</sup>

We must bear in mind that this argument loses its force if the hypothesis of full employment enters the economic scene. This was a rare instance of Gudin's participation in the debate about Brazilian development, i.e., one in which he clearly emphasized an idea without any real conviction about it. His hypothesis of "hyper-full employment" in Brazilian economy was a strong limitation to the validity of his "enrichment effect". On one occasion, Gudin showed some awareness of this fact, but later ignored the theoretical problem that had formerly drawn his attention. Let us compare the foregoing quotation, extracted from a text written in the heat of the 1962 debate, with another text produced several years earlier. In discussing the topic in the latter text on the basis of statistic data demonstrating that American investments in Latin America, in a total amount of US\$ 7 billions, had resulted in an annual income of US\$ 4.6 billions, Gudin made the following acknowledgment of the limitations of his argument:

"There is obviously nothing excessive about a profit of US\$550 millions on investments amounting to US\$ 7 billions. But the consideration that the US\$ 4.8 billions of production value include approximately US\$ 1 billion in wages and over US\$ 1.8 billion in raw materials or national products, which is pointed out as one of the investment's advantages, does not seem to warrant the importance assigned to it, as the country is in a situation of not only full employment, but actually more than full employment, except with respect to the primitive

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(58) Gudin, E., "O desenvolvimento do capital estrangeiro", D.E., June-July 1962, p. 125.

labor found in Brazil's northeast, which is intermittently over-abundant".<sup>59</sup>

The idea that the effects of foreign investments should be examined in light of the national income, and not the balance of payments, was also frequently used by Roberto Campos. The difference between Campos and Gudin was that the former did not think the economy was in full employment. He rather felt that there was a low supply elasticity and full capacity in several sectors. However, the additional savings that foreign capital would introduce into the economy at a certain time would act as a capital to mobilize idle national resources. It was therefore said to represent a capital on the basis of which additional production could be generated without robbing other undertakings of their productive resources. Even if a tendency to deficits in the balance of payments of the capital account were verified at a later date, as nationalists claimed would happen, the "negative savings" recorded in this account would have already been fully offset by the income provided by the original investment. In the case of full employment, as claimed by Gudin, this argument would not hold good. According to Gudin's own classical reasoning, foreign investments in a sector like the steel industry might therefore reduce banana exports, for example, eventually resulting in a negligible net increase in national income.

Regardless of this drawback, Gudin regularly employed the idea of the enrichment effect, counterposing it to nationalist arguments that foreign investment would eventually jeopardize the balance of payments, show deficits in it and put pressure on import capacity. Concerning these charges, Gudin resorted to three arguments that allowed him to repel them.

First, he said there was an exaggeration in nationalist claims, as the amount of profit remittances was negligible if compared to the total balance of payments and to the capital invested. To prove this point, he produced

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(59) Gudin, E., "Capital estrangeiro", Carta Mensal, June 1957, p. 9.

data obtained after 1955. He pointed out that remittances had been somewhat higher in earlier years, but this had stemmed from a misguided policy of overvaluing the cruzeiro, which had driven foreign capital away.

Second, Gudín claimed that there was no reason why additional pressure should be put on the balance of payments, thus increasing the vulnerability to imbalances, as a consequence of foreign capital inflow. To avoid this drawback it would be enough to keep the amount of foreign obligations more or less constant in relation to income; or, to put it differently, one should allow foreign payments to raise only in proportion to the elevation of national income, provided, of course, the income/trade ratio remained unaltered.

The third argument referred specifically to the nationalist thesis that foreign investments reinforce the structural disequilibrium in the balance of payments of underdeveloped countries. Gudín was categorical on this point. Even if there should be deficits in the balance of capital, this would not imply a disequilibrium in the balance of payments as a whole. In his opinion, such disequilibrium could only be generated on a permanent basis in an inflationary situation, when national currency tends to remain overvaluated. Under such circumstances, exchange rates are kept in systematic disagreement with the Brazilian currency's purchasing power parity. If one can stick to Cassel's conditions, which require monetary stability, the exchange rate mechanism will correct deficits in the capital account by means of a superavit in commercial accounts, as it will promote the necessary changes in export and import flows. Gudín's use of this traditional thesis, as formerly pointed out in our review of the theoretical elements in his thought, is particularly important in his analysis of all Brazilian monetary and exchange rate questions, to which we now turn.

#### iv. Monetary issues: inflation and the balance of payments

In the period covered by this study there were very few years of relative monetary stability and equilibrium in the balance of payments. As of



1950, there was an even smaller number of years witnessing a reduction in monetary imbalances, whereas those witnessing their elevation were more frequent. Under such circumstances, monetary and exchange rate policies could not help being a permanently debated topic. Gudin was the major protagonist of that debate in advocating stability, and only after the mid-fifties did he find his match in the person of Roberto Campos.

In the former sections we have referred to virtually all of the main elements forming the basis of Gudin's stance with regard to inflation and the balance of payments. This will allow us to abbreviate our present description.

We have seen, for instance, that his interpretation of the inflationary phenomenon is a Keynesian one. Gudin rejected the direct and proportional relation between currency and prices that characterized the quantitativist position, claiming that the analysis of this relation must limit itself to an examination of the existing productive conditions.

Inflation is, in his opinion, a proof of the productive system's incapacity to respond to demand pressures. It is synonymous with supply inelasticity, which results from full employment in productive factors. It does not necessarily originate from money issues, which are merely an indispensable fuel for inflation. Inflation essentially results from three complementary processes that press the National Treasury to issue money: budgetary deficits, expansion of bank loans, and wage raises above increases in productivity. Currency expansion and inflation are the monetary counterparts of these real processes, whose causes are the poor administration of economic policies and the characteristics of national political life, specially with regard to the power of workers' unions; and whose actual consequence is a demand pressure upon an inelastic, full-employment productive structure.

Gudin never bothered about discussing the epithet of "monetarist" by which structuralists and leftists in general referred to him. From a Keynesian theoretical point of view, however, none of his writings about Brazilian in-

flation may be unreservedly classed as monetarist. This term was employed in the sense that Gudin not only disregarded the adverse effects of stabilizing measures on economic activities, but also disregarded the existence of unemployment in his propositions, erroneously presupposing the existence of full employment. Moreover, the term was used by structuralists in the sense that Gudin disregarded the "structural" nature of inflation, as it had become common usage among Latin American structuralists to refer to those who opposed their ideas as "monetarists". We shall revert to this point later on.

We have also noted in the preceding sections that, according to Gudin, the cause of a permanent disequilibrium in the balance of payments could only be inflation. He reiterated this idea hundreds of times, combining two complementary arguments in his proposition.

In the first place, he claimed that foreign deficits reflect an excessive demand on domestic production, which in turn has repercussions on the inflationary situation. Time and again he explained that whenever there is an increase in import needs, there is no reason why there should be any deficits. An eventual demand increased by imports implies a reduction in the demand for domestic production goods, thus liberating productive factors to export or import-substitution activities. Import expansion is therefore compensated either by an expansion in exports or by domestic production of formerly imported goods.

Gudin's second claim, which was even more frequent, was that inflation invariably generated deficits in Brazil, as it always resulted in an overvaluation of local currency. Inflationary situations are said to make it difficult to escape overvaluations for two reasons: the first one, which is common to all countries, is that they represent an element working as a feedback to the inflationary process. The second one, which is typical of countries that specialize in primary goods exports, is that overvaluations have unfavorable repercussions on those nations' balance of payments, given the marked

price inelasticity of international demand for such products.

In short, Gudín's views on the problem of Brazilian disequilibrium in the balance of payments may be stated as follows: the failure of the classical automatic mechanism to eliminate deficits in the balance of payments, i.e., of deflation combined with the gold standard, leads to a need to employ an alternative policy of exchange rate devaluations. This policy's objective is to preserve the purchasing power parity of national currency, thanks to which an equilibrium is more or less assured in the balance of payments. Inflation not only drives national currency away from the parity level by overvaluing that currency, but also makes it difficult to enforce a policy re-establishing parity through devaluations for the two reasons pointed out earlier: monetary authorities fear that devaluations may accelerate the inflationary process through an increase in import costs, and they are afraid of affecting export revenues in foreign currency, as well as import capacity and the very equilibrium desired, owing to any fall in the international prices of those products of which the country is a major exporter, such as Brazilian coffee.

Gudín played an active role in discussing all exchange rate policies during the period under study. His main orientation stated that the only final solution for foreign deficits lay in monetary stability. In 1948, for example, working on behalf of that stability and fearing a drop in export prices, he gave support — as a provisional solution — to a policy of exercising physical control over imports by means of anticipated import permits, combined with a fixed exchange rate of Cr\$18,00/dollar. He later opposed this policy, criticizing CEXIM's application of those controls and specially the magnitude of the exchange rate valuation and the continuity of inflation. As Finance Minister in 1954/55, however, he again gave priority to monetary equilibrium by postponing cruzeiro devaluations — which, incidentally, contributed to costing him his office. He was also a kind of mentor of the multiple exchange rates policy adopted in 1953. In this respect, he stated,

in vol. II of his textbook, published only a year prior to the adoption of that policy:

"Multiple exchange rates therefore represent an inestimable means of attaining equilibrium in the balance of payments and avoiding an aggravation of inflation, without resorting to the abhorrent policy of imposing quotas and obtention of anticipated import permits. (...) One might say that the system makes imports expensive. But there is no other means of curtailing demand than raising prices. Price rises would be much higher if quotas or anticipated permits were to be adopted. And as regards the import of essential goods, there is no reason why the concession of more favorable exchange rates should be prevented".<sup>60</sup>

Gudin explained that this system, first adopted in Argentina in the decade of 1930 under Prebisch's guidance, is particularly indicated in the case of low demand elasticity for export and even import products, when mere devaluations might have adverse repercussions on the balance of payments.

However, he viewed the system as an intermediary solution between the worst policy to correct foreign deficits, which he felt to be that of quantitative controls, and the choice solution of a devaluation policy. The latter, however, would require the economy to have a certain monetary stability.

Gudin thus felt that the major difficulty in restoring equilibrium to the balance of payments was inflation, which he also viewed as its basic cause. From his perspective, there was no such thing as a structural disequilibrium in the balance of payments, as claimed by structuralists, not even as a result of eventual pressures for remittance of profits on foreign loans and investments, as we have seen earlier.

Inflation, in turn, could not be caused by deficits, as ECLA's economists used to claim, in that it is the very cause of that disequilibrium. Its origin lies simply in the excessive demand generated by mistaken monetary

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(60) Gudin, E., Princípios de economia..., op.cit., vol. II, pp. 282-283.

policies. Gudín accepted the fact that in Brazil, as in underdeveloped countries in general, there was greater vulnerability to inflation than in those "countries whose industrial apparatus is better equipped and whose revenues do not depend on the price of primary goods".<sup>61</sup> He nevertheless claimed that this was not enough to conclude that inflation is inevitable. As he saw it, structuralists were mistaking an effect for a cause:

"The mistake of attributing inflation to structural causes or to a structural rigidity sometimes stems from the confusion between cause and effect that can be found in ECLA's writings.

What happens is that under the pressure of inflation, governments:

1. attempt to control prices not by reducing the demand, but by enforcing pricing controls (...), with a resulting fall in the production of those sectors whose prices are frozen and an aggravation of price rises;
2. refuse to grant adequate readjustments to public service charges, thus creating serious bottlenecks;
3. hold back the exchange rate, thus generating a reduction in exports and giving rise to a disequilibrium in the balance of payments and a strangulation of imports".<sup>62</sup>

The three main factors responsible for inflation, according to structuralist views, are thus reduced by Gudín to a consequence of mistaken anti-inflationary policies; the insufficiency of agricultural supply for the domestic market does not stem from a production rigidity determined by the archaism of property relations, but rather from price-controlling governmental agencies; the bottlenecks in sectors that are strategic for industrial expansion result from the freezing of service charges, and not from an alleged structural weakness for lack of massive public investments; and the bottlenecks in import capacity are a result of the lack of stimuli to export, which in turn springs from excessive exchange rate controls motivated by the fear of feeding inflation.

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(61) Gudín, E., Análise dos problemas..., op. cit., p. 68.

(62) Idem.

According to Gudin, the main cause of the various bottlenecks is inflation itself, because it induces rulers to make mistakes in economic policies. In order to control inflation one must not start off from its effects. The correct policy would consist of attacking its primary causes, i.e., public deficits, credit expansion, and wage raises. Until this can be done, inflation will continue to generate a number of distortions that are detrimental to economic development, apart from the three aforementioned mistakes in anti-inflationary policies. Inflation gives rise to conspicuous consumption, causes labor struggles and strikes, overmultiplies credit institutions and the cost of financial intermediacy, hinders the establishment of a market for government bonds, creates an attitude of hostility toward foreign capital, which "becomes the scapegoat of politicians and demagogues in search for an alibi", and above all, reduces the system's allocative efficiency:

"The country's economic development suffers for two reasons: first, because inflation causes private savings to be guided by the need to defend oneself against it, and not by a criterion of productivity. Those who formerly used to invest in commercial, industrial or agricultural enterprises begin to invest in land, houses or apartments, which have a very low social productivity. Secondly, development suffers because major infrastructure works like power-plants, dams, railroads, factories, etc. take twice or three times longer to be concluded, as their respective budgets are repeatedly blown".<sup>63</sup>

In Gudin's view, Brazilian inflation must become a priority in governmental economic policies, both for the foregoing reasons and the distributive injustice it entails. And this must be done on behalf of development itself. For Gudin, the thesis that inflation has a structural cause and is therefore unavoidable is a preposterous one. Lincoln Gordon had been right in stating, with respect to this thesis, that "economic analysis is not a matter of taste. One must heartily welcome distinct expressions of Latin American art, litera-

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(63) Gudin, E., "Injustiças, distorções e dano social da inflação", Carta Mensal, 1963, p. 9.

ture or philosophy, but there can be no such thing as a ECONOMIC SCIENCE FOR LATIN AMERICA, just as there are no Latin American physics or mathematics".<sup>64</sup>

Gudin did not acknowledge any analytical contribution in the structuralist thesis. He knew, of course, that leftists called him a "monetarist", meaning by this that the monetary policies he preconized would hinder industrial development, just as monetarist policies prevent advanced economies from overcoming situations of depression. On a few rare occasions he repelled that charge by pointing out that, in terms of the "universal economic analysis", he was no monetarist, as we have seen. As he denied any theoretical validity to structuralist views, the term "monetarist" probably sounded to him as an additional nationalist charge of purely ideological content, specially as the accusation was often made in connection with his closeness to the policies recommended by the IMF, an organization viewed by nationalists as a major "imperialistic" and anti-developmental agency.

For those who acknowledge the theoretical value of the structuralist position, however, the charge against Gudin does make sense. Its meaning differs from the conventional one and is specific to the perspective of Latin American structuralism, implying two basic ideas. First, that albeit inflation is really detrimental to development, stabilization policies are even more so, in that they affect an already problematic growth and threaten the industrialization process with regression. Cuts in strategic investments, control over credit, and the resulting unemployment represent a blow with serious repercussions on an already hasty process of growth. Second and more important, there is the idea that this would be a useless policy: in most economies, unless they are condemned to permanent stagnation, inflation reappears immediately the growth process is resumed. It is, in such cases, the inevitable outcome of the foreign and domestic bottlenecks that are typical of the scarcely diversified productive structures of countries exporting pri-

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(64) Quoted in Gudin, E., Análise dos problemas..., op. cit., p. 60.

mary goods. The only final solution for inflation lies in breaking these bottlenecks — a situation that can only be brought about in the long run by means of a diversification of the economy to be promoted by industrialization.

According to this view, a "monetarist" economist would be someone who always believed it possible to develop without inflation and always ignored the adverse effects of stabilizing policies on development. This usage of the term is only remotely analogous to the traditional one, where "monetarists" are those economists who think that inflation is always caused by monetary expansion, whether or not it is associated to excessive demand, i.e., even under conditions of widespread unemployment. From the analytical point of view, Gudin was a "monetarist" only in terms of the former, and not the latter usage.

v. Distributive questions: Wages, income distribution,  
and land reform

The last item in our already extensive discussion of Eugênio Gudin's thought concerns distributive questions. It is helpful to deal separately with the questions of income distribution and landed property. The latter became an important political point of controversy as of the late fifties, in connection with the problem of the land reform. Gudin commented on this subject on a very few occasions, pressed by the heat of the debate which took hold of Brazilian society.

His basic argument was that the redistribution of landed property would be a virtually useless measure, and that the projects that aimed to enforce it disregarded the fact that poverty in rural areas is a consequence of low productivity, which in turn results from an insufficiency of four elements: health, literacy, agricultural techniques, and credit. Land ownership, in Gudin's opinion, was but a fifth element concerning which there was no need to pass legislative measures:

"In fact, I would say that in a country like Brazil, where (unlike



India, for example) the population is scanty in relation to the land available, any individual possessing the four attributes indicated above will have no difficulty getting hold of the fifth, i.e., becoming a landholder. There we have the Schmidts, the Lunardellis and the others to confirm it.

Inversely, if landed property is given to the peasant who has no health, cannot read, cannot sow, cultivate and fertilize the land, cannot eradicate plagues and has no credit, he will have no alternative but to sell the land he has received".<sup>65</sup>

In one of his rare texts on this subject, Gudín stressed that certain measures would be advisable, such as imposing a limit on the percentual remuneration of landholders in the event of share-cropping contracts, reserving an area of land for cultivation by the tenant's own family, and levying high taxes on unproductive land. But he added that these measures would be absolutely insufficient to solve the problem of rural poverty. The real solution lay in an effort to raise productivity by means of the aforementioned quartet of measures.<sup>66</sup>

As for the income distribution issue, Gudín's statements were somewhat more frequent. Even so, this topic occupied a relatively small space in his vast production of texts about Brazilian reality. This probably reflects the fact that this topic was also relatively disregarded in the Brazilian developmentalist debate, except after the early 1960s.

The explanation for the scarce attention devoted to this question during nearly the entire period under examination is, perhaps, that there seemed to be some sort of a minimum consensus on the subject among virtually all strands of economic thought then discussing national development problems. At least theoretically they agreed, on the one hand, that development should not be attained at the expense of a compression of basic consumption or a re-

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(65) Gudín, E., "Preliminares sobre a reforma agrária", D.E., July-Dec. 1961, p. 69.

(66) Gudín, E., "A reforma agrária e a agitação", D.E., June-July 1962, pp. 21-22.

duction in workers' real wages; on the other hand, they agreed that wage raises should not jeopardize investment capacity. In fact, on one side, no economist — not even among the most conservative ones — developed his or her argumentation (as became frequent after 1964) on the basis of what later became known in Brazil as the "cake theory", i.e., the idea that income must be concentrated for the time being so as to let "the cake" grow, and then slice and distribute it in some indefinite future through wage raises and a de-concentration of income. Neither do we find among leftist economists any advocacy of the idea of an immediate elevation in the standard of living by means of a reduction in profits — except, perhaps, in the early 1960s, when the income distribution question began to be related with the dynamics of economic growth in terms of the domestic market's insufficiency. Apart from that, what economists did favor was higher taxation, aiming to reduce conspicuous consumption and channel the surplus to investments seen as priority ones; they alternatively favored taxation of monopolistic profits, or landed property distribution. The major distributive question, however — i.e., the one concerning profits and wages —, remained more or less consensual in principle. Divergencies were either essentially pragmatic, reflecting each individual's political stance in face of labor rights and revindications against an inflationary background of generalized uncertainties, or they were influenced by worries concerning not the distribution of income, but rather the control over inflation.

We shall examine this delicate question in greater depth elsewhere in this work. For the moment, our short digression is only meant to clarify Gudín's position in regard to the really crucial distributive question, i.e., that of wages and profits. His pronouncements on this matter denote a two-fold concern: avoiding inflation and avoiding profit reductions.

In effect, at no time whatever did Gudín support wage reductions to favor investment expansion. He adhered strictly to the criterion of wage raises in proportion to increases in productivity. With the acceleration of

inflation indices, however, he eventually advocated the idea of wage raises below price rises. He often explained his view that, in a process of curbing inflation, the net final result of readjustments of this type is more favorable to workers than the other way around, i.e., than readjustments that are initially higher but are invariably accompanied by rising prices that quickly use up workers' wages.

This, of course, is not an altogether uncommon view and it can be found in all major debates about wage policies in capitalist economies, specially within openly inflationary contexts. It is expressed either in a conservative way, in opposition to labor union revindications, or as a logical support to win unions over to anti-inflationary practices like "income policies", should the political setting favor them. But this view can be challenged in several ways that range from discussions about the causes of inflation and the effects of stabilization policies up to doubts concerning the legitimacy of the measures recommended, when there isn't sufficient political room for a democratic defense of labor interests. There is room, for instance, to suspect that the final onus for the struggle against inflation by such type of policy will eventually fall to laborers; or one might say that it is both unfair and detrimental to economic growth, and so forth; but one cannot mistake it for the "cake theory".

With this qualification, we may now proceed to a brief summary of Gudin's position regarding this question. He voiced his opinion that this was a reflection of the disputes prevailing in Brazilian society, the highlights of which were the time when the executive power decided upon salary readjustments and the times when there was a sharpening of Congress debates about the taxation of profits and labor charges, as in the case of taxation on extraordinary profits and of employee participation in company profits.

The clearest account of Gudin's theoretical views on income distribution appeared — certainly not by chance — in two texts written in 1954, the year when Vargas's decree stipulating a one-hundred percent raise on the mini-

mum wage must have contributed largely to the political crisis that ensued, culminating in the President's suicide.<sup>67</sup>

Gudin's reasoning was guided by the neo-classical notion that the market determines the remuneration of productive factors in accordance with their marginal productivity, as we can see in the following statement:

"LEGISLATION on the minimum wage seeks to switch over to the social field a problem that is essentially economic. The intended objective is income redistribution to favor a given group, viz., that of low wages. But income distribution in a market economy cannot be arbitrary; it must follow the principle that each worker will receive a compensation corresponding to the services he renders, according to a free evaluation by the market".<sup>68</sup>

In another article, Gudin includes the qualification that "in a regime of under-employment, high productivity per laborer employed does not in itself bring about high wages".<sup>69</sup> In his opinion, under the Brazilian conditions of full employment, governmental interference in the labor market to regulate the price of manpower or legislate about employee participation in company profits is but a series of mistakes.

In the first place, Gudin noted that "the tragic thing about the minimum wage legislation is that it collides with the inexorable economic fact not of income distribution or monetary forms, but of the insufficient volume of production".<sup>70</sup> Secondly, he felt that the state can alter the price hierarchy established by the market only for a limited period:

"The general hierarchy of the factors' relative values cannot be permanently subverted unless there are changes in demand or supply. It tends to be reinstated in the course of time, as it corresponds to the productivity hierarchy of the various productive factors, in general, and of the various types of labor in particular".<sup>71</sup>

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(67) The two papers are "Produtividade" and "Salário mínimo", op. cit.

(68) Gudin, E., "Salário mínimo", op. cit., p. 5.

(69) Gudin, E., "Produtividade", op. cit., p. 10.

(70) Idem, p. 6.

(71) Gudin, E., "Salário mínimo", op. cit., p. 6.

Third, Gudín claimed that the legislation in question was an unnecessary protective measure for Brazilian workers, given the country's full employment condition:

"They say that, in times of inflation, the state must interfere in the labor market to re-establish the purchasing power of wages, which is reduced by price rises. But this intervention is entirely superfluous. It is automatically performed by the very market mechanism. What makes prices and the cost of living go up is inflation. And what is inflation if not an intensification of the demand for everything, including labor, which employers themselves begin to compete for at auction prices? Inflation is synonymous with hyper-full employment".<sup>72</sup>

Finally, Gudín observed that "such legislation corresponds to a policy that is likely to cause a temporary unemployment, both because it entails an increase in marginal costs above prices and because it reduces profitability and investments". As for the latter consequence, however, Gudín found it so salutary as to deserve the support of governmental policies:

"So great is the intensity of inflationary forces that we would not hesitate to recommend a monetary and fiscal policy in support of deflationary forces, so as to avoid a fast and considerable rise in prices".<sup>73</sup>

Unemployment of the type caused by "the only possible remedy" for the prevailing inflationary situation, i.e., "a substantial reduction in investments and a significant reduction in consumption", would even be beneficial to the economy as a whole:

"There are countless examples in our country of a fall in productivity engendered by the advent of the social law of employment stability.

Hence the fact that optimum productivity, maximum production, and maximum national income correspond to a situation that is inferior to

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(72) Gudín, E., "Salário mínimo", op.cit., p. 7.

(73) Idem, p. 11.

that of full employment. Although this policy is exceedingly difficult to enforce, there would be an economic advantage in maintaining a situation of less than full employment of labor, regardless of the need to support the unemployed".<sup>74</sup>

On different occasions Gudín attacked the labor laws introduced by Vargas. He blamed them for serious distortions in the allocative mechanism, in that they promoted premature migrations into the cities and affected agricultural production by granting "city laborers every right, including those of insubordination and idleness, which are inseparable companions to inflation and hyper-full employment".<sup>75</sup>

He further opposed the idea of employee participation in company profits, which was often discussed in the 1950s, using arguments similar to the ones applied to the analysis of wage readjustments. As for the taxation of extraordinary profits, which was also discussed at the time, Gudín claimed that it stood for a punishment to those who were efficient and a discouragement to productivity, and alternatively proposed the introduction of anti-monopolistic legislation and the suppression of excessive customs protection.

As we can see, Gudín's analyses of distributive questions include all essential elements of liberal views. Labor union pressures and governmental intervention represent obstacles to the distributive and allocative efficiency assured to the economic system by market mechanisms. Concerning these issues, as with respect to other features of developmentalist problems, Professor Eugênio Gudín was the major Brazilian leader of conservative economic thought. He was seconded — always in a more cautious language — by Professor Octávio Gouveia de Bulhões.<sup>76</sup>

(74) Gudín, E., "Produtividade", op. cit., p. 14.

(75) Gudín, E., "A rendição da guarda", D.E., June-Aug. 1950, p. 64.

(76) In Part II of this work, where neo-liberal arguments will again be examined, this time against the background of that period's debate with other currents of thought, we shall give attention to the work of Octávio Gouveia de Bulhões and other neo-liberal authors.

### 3. Developmentalist Thought

#### 3.1. Introduction

Developmentalism, as formerly defined, was the economic ideology that gave support to the project of full industrialization as the means to overcome Brazilian underdevelopment and poverty. As we have seen, three developmentalist currents may be distinguished. Their chief common features were the project of establishing a modern industrial capitalism in Brazil and the view that, for that purpose, it was necessary to plan the economy and enforce distinct forms of governmental intervention. Their basic differences may be summed up as follows:

a) Developmentalist economists, depending on their professional training, had somewhat distinct concerns and languages. Those working in the private sector privileged the defense of entrepreneurial interests in a different way from public sector economists, owing to the natural commitments of the former.

b) Within the public sector there were two basic developmentalist positions in regard to state intervention. The economists we have termed "non-nationalist" preconized private initiative solutions, either with national or foreign capital, for investment projects for the industrial apparatus and the economic infrastructure, admitting of state intervention only as a last resource. "Nationalist" economists, on the contrary, argued for state control over mining, transportation, energy, public services in general, and some segments of heavy industry. Among private sector developmentalists there were no uniform views in this respect and one could find economists who approached the former position, while others were more inclined toward the latter, "nationalist" position.

c) The three developmentalist currents took different stances in regard to the problem of controlling inflation. The "non-nationalist" current tended to favor monetary stabilization programs, thus diverging from the two

other strands. These, in turn, diverged in terms of the analysis of the problem. Within the private sector, the major concern was to avoid credit retraction, and the structuralist argumentation was not adopted; public sector nationalists, on the other hand, were concerned both with credit retraction and state de-capitalization, thus developing a structuralist view of the question of inflation during the decade of 1950.

The origins of developmentalism lie in the period 1930-1945. The international economic crisis, with its domestic repercussions, and the country's political centralization after the Revolution of 1930 are among the major factors accounting for the emergence of this economic ideology. Together, they represent its two basic foundations.

In the private sector, the agencies representing the industrial sector (CNI, FIESP, etc.) widened the scope of their revindications. Roberto Simonsen conceived of and divulged, via those agencies, a strategy of planned industrialization. The process of becoming aware of that idea attained definitive results only in the second half of the fifties, but the minimal legitimacy of the project was assured by Simonsen's unquestionable leadership among industrial entrepreneurs.

The second foundation was laid in the public sector, where from 1930 onwards and especially during 1937-1945 (the "Estado Novo" period) a number of agencies were created to deal with nationwide problems. Their officials, both civil and military, were automatically led to ponder over the questions pertaining to national economic development in an integrated and comprehensive manner, thus generating a developmentalist ideology.<sup>1</sup>

The private sector developmentalist current was based upon the first of the aforementioned foundations. Public sector developmentalist currents were based on the latter foundation, but were largely influenced and supported by Simonsen himself. In the second half of the 1940s, for example, when

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(1) With respect to the origins of developmentalism, see Part II, chapter 1, section 1.2 of this work.



the liberalism of Dutra's government brought considerable immobility to the agencies created by Vargas, Simonsen created an Economic Department at CNI and trusted its headship to Rômulo de Almeida, who, along with Celso Furtado, was to become a leader of nationalist developmentalism in the decade of 1950.

Simonsen died in 1948, the year when ECLA began its operation. This historical coincidence had some significance for the evolution of developmentalism: ECLA, an agency that had U.N.'s credibility, became the main organ to give immediate continuity to the work of legitimation Simonsen had developed through FIESP and CNI. ECLA represented an important advance in relation to Simonsen: it provided a powerful set of anti-liberal analytical tools that were partially assimilated by private sector developmentalists and fully assimilated by most public sector developmentalists.<sup>2</sup>

We shall initiate our account of developmentalist thought by focusing on the private sector current, with special emphasis on Roberto Simonsen's work. We shall thus be following the basic chronology of the evolution of economic ideas in Brazil, inasmuch as Simonsen, as an individual thinker, was the father of economists belonging to all developmentalist currents.

### 3.2. The Developmentalist Current in the Private Sector

#### i. Introduction

In the Brazilian economic literature of the period under examination, there was a strand of thought whose ideas reflected a twofold purpose: to defend a project for planned industrialization and protect the interests of national private capital. The history of this current begins in the 1930s.

The economic and political transformations after the 1930 Revolution, along with the economic crisis of the time, opened up a new perspective to a small number of industrial entrepreneurs assembled in agencies representing

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(2) Section 2 of the General Introduction offers a summary of ECLA's analytical contributions, a topic to which we shall revert in Part II, section 3.3 of this work.

employers, i.e., the prospect that the industrial sector would play a central role in the future of national economy. In the years that ensued and also during World War II, meeting at the Centro das Indústrias dos Estado de São Paulo - CIESP (São Paulo Center for the Industry), at FIESP and CNI, men like Roberto Simonsen, Euvaldo Lodi, Jorge Street and Morvan Figueiredo elaborated on the notion that Brazilian economic development could be brought about by building a modern industrial structure resembling the one found in advanced capitalist economies.

This small entrepreneurial elite was going through what one might safely term a pioneer experience in economic planning. Within the corporative scheme of the "Estado Unovo", entrepreneurial leaders played a part in several of the many governmental economic agencies then created. Thus, there was a fruitful ideological intermingling of their Weltanschauung with developmentalist ideas and concepts then being formed within the new federal agencies, where discussions were held and decisions were made with respect to foreign trade, energy, transportation, steel milling and many other nationwide topics. The culmination of this pioneer stage of the developmentalist conception was Roberto Simonsen's presentation of a project, in 1944, for the creation of a National Planning Board; this presentation was made at the Conselho Nacional de Política Industrial e Comercial (National Industrial and Commercial Policy Council), which Simonsen himself had created within the Ministry of Labor, Industry and Commerce in co-operation with Minister Marcondes Ferraz and lawyer San Tiago Dantas.

Simonsen died in 1948, after having established, in the two preceding years, two important centers for developmentalist reflection at CNI: the Economic Council and the Economic Department. Euvaldo Lodi, Simonsen's major political partner at CNI, preserved both centers as creative agencies that followed developmentalist lines, up to his death in the mid-fifties. From then onwards, these two agencies began to decline. The roster of members of the Economic Council, for instance, started to show the addition of some out-

standing conservative economists. And by 1955, the Economic Department had already lost to the public sector four of its most important economists: Rômulo de Almeida, to whom Simonsen had entrusted the headship of the Department since its inauguration, was appointed by Lodi to take charge of Vargas's Economic Advisory Board in 1951; later on, Ewaldo Correia Lima and Joaquim Mangia joined the BNDE, while Heitor Lima Rocha went to Petrobrás. From the original staff there remained Ernesto Street, Knaack de Souza, and João Paulo de Almeida Magalhães. Already during the decline period, there went through that agency young Aníbal Villela, who soon moved into the CNE, and Mario Henrique Simonsen, who was to join FGV.

A word of clarification is in order: among the foregoing economists, the majority typically followed a nationalist developmentalist orientation linked to the public sector. Strictly speaking, such was the case of Almeida, Lima Rocha, Correia Lima, and Mangia, and to a certain extent, also that of Aníbal Villela, given his confidence in the efficacy of planning. The major economists one might categorize as "private sector developmentalists" within the Economic Department's staff were Almeida Magalhães, Ernesto Street, Knaack de Souza, and more remotely, Mario Henrique Simonsen, who began to write only in the early 1960s, already working with FGV. The approach adopted in the writings of the latter economists clearly denotes the twofold orientation we have referred to, i.e., the general advocacy of full industrialization and the specific championing of industrial entrepreneurs' interests. Other important names connected with the CNI along the same lines are Humberto Bastos, Djacir Menezes, and Hamilton Prado.

Through its Economic Department, between the years 1950 and 1954, CNI published the journal Estudos Econômicos, the first issues of which featured two of Prebisch's pioneer works at ECLA. The journal's discontinuation in 1954 was part of the aforementioned decline of the Economic Department. In 1957, Manuel Orlando Ferreira and Renato Sampaio launched a new CNI publication, the journal Desenvolvimento e Conjuntura. This innovation gave Almei-

da Magalhães — who was an intellectual leader at the already weakened Economic Department — the opportunity to move into that new and more promising department at CNI. After just over a year as the journal's editor, Magalhães became its director and transformed it into one of the major vehicles of economic discussion during the final stage of the developmentalist cycle, i.e., up to 1964.

Outside CNI, there were a number of other developmentalists who might be said to belong to the private sector current, given their ideas. This was the case, for example, of Nuno Fidelino de Figueiredo, who played an important role in sharpening the intellectual debate in São Paulo in the mid-fifties, by re-initiating the publication of Revista de Ciências Econômicas at the São Paulo Economists' Association and giving it markedly higher academic standards than it had known in its former phase, discontinued in 1952. The magazine's editorial staff featured the name of Delfim Neto, who was to become the major intellectual leader in the field of economics in the state of São Paulo. It also included the name of Hélio Schlittler da Silva, who, upon an invitation by Roberto Campos, moved into Rio de Janeiro to join the BNDE in the early Kubitschek years.

At the universities one could also spot some economists who could be termed private sector developmentalists. A case in point is Roberto Pinto de Souza, from the University of São Paulo (USP), who played an active part in the debate of the 1950s. Souza published most of his articles in the magazine Digesto Econômico. In the early 1960s, the Pontifical Catholic University of Rio de Janeiro (PUC) began to publish a magazine titled Síntese Econômica, Política e Social, also expressing views that approximated those of private developmentalists.

Private sector developmentalists resembled their public sector counterparts in their reflections about full industrialization issues. No distinction can be found in this respect between Simonsen and his CNI followers, on the one hand, and public service economists from BNDE, Vargas's Economic

Advisory Board, Banco do Brasil, or the Joint Brazil-USA Commission, on the other. The differences could be detected in their stance regarding the questions of state intervention, foreign capital, inflation, and income distribution. In the text which follows we will begin by reviewing the positions adopted by Simonsen and CNI in regard to the industrialization process, and then give an account of those aspects of private sector developmentalism that distinguish it from public sector developmentalism.

## ii. Roberto Simonsen's pioneering developmentalism

Roberto Simonsen, the major Brazilian industrial leader, was the great ideologist of developmentalism. As an entrepreneur, engineer and economist, Simonsen introduced himself into national political life through the top positions he occupied at agencies that were representative of industrial entrepreneurial classes. He was vice-president of the São Paulo Center for the Industry shortly after its inauguration in 1928. In 1935 and 1936, he was president of Confederação Industrial do Brasil (Brazilian Industrial Confederation, later transformed into the National Confederation of Industries); and from 1937 to 1945 he presided over FIESP. In 1937, Simonsen was a temporary member of Conselho Federal de Comércio Exterior - CFCE (Federal Foreign Trade Council) as industrial entrepreneurs's representative, and in 1944 he was a member of Conselho Nacional de Política Industrial e Comercial - CNPIC (National Industrial and Commercial Policy Council). Simonsen was a "classist" congressman at the Constituent Assembly of 1934 and, elected Senator by the Social Democratic Party in 1945, he also took part in the Constituent Assembly of 1946.

Starting from this privileged institutional position, Simonsen was led to improve his developmentalist conceptions at the whim of the political struggles he faced and to spread his ideas in a political and intellectual militancy that amounted to a true ideological crusade. He created centers for study and debate at different institutions, organized and took part in

countless national meetings, wrote innumerable articles, and made numberless conferences, pioneeringly emphasizing the need for industrialization as a means of overcoming Brazilian underdevelopment.<sup>1</sup> At FIESP and CNI, for example, he set up economic departments, while also creating an Economic Council at CNI. He was the major developmentalist leader to attend the First Brazilian Seminar on Economy, held in 1943, and organized the First National Industry Conference in 1944, using it to promote the creation of a National Planning Board at CNPIC. Simonsen was also one of the major entrepreneurial leaders attending the First Brazilian Conference of the Entrepreneurial Classes, held in Teresópolis in 1945. Furthermore, he was one of the creators of the Free School of Sociology and Politics in São Paulo, in 1933, where, as lecturer of Brazilian Economic History, he elaborated a study that was later converted into his well-known pioneer book on Brazilian economic history.<sup>2</sup>

An extensive assessment of Simonsen's work would demand a longer review than the one which follows. In the period under examination in this thesis, his importance was largely due to his ideological legacy to the country, as he took no part in the developmentalist debate conducted during the better part of the period, owing to his premature death in 1948, at the age of 59. This has made us give less space to his work than to that of the four major economists of the fifties, viz., Eugênio Gudin, Roberto Campos, Celso Furtado, and Ignácio Rangel. We shall restrict ourselves to an assessment of the developmentalist content of Simonsen's thought with the aim of identifying the characteristics that transformed him into the father of Brazilian developmentalists.<sup>3</sup>

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- (1) Thirty of Simonsen's papers can be found in Evolução industrial do Brasil e outros estudos, São Paulo, Editora Nacional, 1973 (see bibliography, pp. 478-479). The book, organized by Edgard Carone, is a careful selection of Simonsen's major works.
  - (2) Simonsen, R., História econômica do Brasil (1500/1820), São Paulo, Cia. Editora Nacional.
  - (3) Unlike works by other authors mentioned in this dissertation, Simonsen's works have already been the object of a few studies. See, for instance, Heitor Ferreira Lima, Mauá e Roberto Simonsen, São Paulo, Edaglit, 1963;

For that purpose we must sort out the more properly ideological content in the author's thought, i.e., the elaboration of the developmentalist project. At the analytical level, as we shall argue later ahead, Simonsen's thought still falls within a theoretical void that was understandable under the prevailing circumstances in the decades of 1930 and 1940 in underdeveloped countries, and which was overcome in Latin America only after the emergence of ECLA's developmentalist theory in 1949. At the level of economic ideology, however, his work contains the basic elements of developmentalist ideas found in the thought of all the currents that, in the 1950s, argued for the implementation of a modern industrial capitalism in Brazil. Here are the elements that gave a structural unity to Simonsen's developmentalist thought:

1) Industrialization, as he saw it, was the means to overcome Brazilian poverty. In a passage dated 1943, for instance, he stated:

"The index of progress in a given civilization is the constant increase of all sorts of goods and services. This multiplicity of commodities has to be created by the industry. ... Industrialization in a country like Brazil is indispensable to make it reach a high civilization stage."<sup>4</sup>

Simonsen conceived of an integrated industrialization down to the basic sectors. He wrote the passage of the summary conclusions of the First

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Fallangiello, H., "Roberto Simonsen e o desenvolvimento econômico", thesis submitted to FEA, Universidade de São Paulo, 1971, mimeo; Fallangiello, H., História do pensamento econômico do Brasil, São Paulo, Cia. Editora Nacional, 1976.

- (4) Simonsen, R., "Alguns aspectos da política econômica mais conveniente no período do pós-guerra", in Evolução industrial do Brasil..., op. cit., p. 288. It is worthwhile noting that Simonsen's defense of industrialization was repeatedly accompanied by his concern in demonstrating that, in principle, that process was compatible with agricultural interests and harmonized with the interests of the United States. He claimed, on the one hand, that agricultural progress is increasingly dependent upon the market formed by industrial expansion and consumption of agricultural raw materials. On the other hand, he argued that "an enriched Brazil would be the largest purchaser of American industry's basic and specialized products. Even if we restricted the number of imported products, it would still be a long time before we had enough capacity to purchase the large volume we need" (Simonsen, R., "Possibilidades de expansão industrial brasileira", 1937, reprinted in Evolução industrial..., op.cit., pp. 82-83).

Brazilian Industry Congress stating that "a country's industrial development relies, first of all, on the installation of heavy industry, largely composed of first-alloy metallurgy and large chemical industries".<sup>5</sup>

2) At a given point in industrialization development, or more precisely, in the immediate post-war years, Simonsen used to draw attention to the fact that a profound process was under way to restructure Latin American economies. His remarks in this respect appear, for instance, in the context of a strong protest against the Marshall Plan, which he felt to have been formulated in a detrimental way to the interests of Latin American countries:

"Concerning Latin America, the execution of a program as outlined by the Paris Commission for Economic Co-operation will compell us to revert to a state resembling that prevailing during the war. We shall be requested to expand our extractive, agricultural and mining activities to co-operate with the Plan, contributing raw materials and semi-colonial products. The production of such items in abnormal amounts will force Latin American countries to displace their workers to primary activities, which have a low productivity and are subject to economic instability. And the Plan itself does not foresee the continuation of European imports of Latin American goods at stable levels after 1951. On the other hand, we know from our recent painful experience what great damage will be caused to our economies by the aforementioned displacement of our productive factors into activities with no guarantee of continuity and low economic returns. We may be affected, as forecast in the Paris report, by a severe reduction in production goods supply by the United States, as Europe will certainly claim priority for their needs. Finally, eroding our economic apparatus even further, we shall also be subject to the evils of inflation stemming from an artificial valorization of prices, excessive exports of basic consumption goods, and difficulties to finance our production and exports".<sup>6</sup>

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(5) Simonsen, R., paper presented at the Brazilian Industry Congress held in 1944, reprinted in Evolução industrial..., op. cit., p. 107.

(6) Simonsen, R., "Devem pleitear as nações latino-americanas sejam atendidas, no Plano Marshall, as suas aspirações", speech delivered at the Interamerican Conference on Production and Commerce, Petrópolis, 1947, reprinted in Evolução industrial..., op. cit., p. 337.



Simonsen stressed that he agreed in principle to the Marshall Plan, his divergence being restricted to its view of Latin American participation. He claimed that the poverty of this continent's countries did not allow them to finance their supplies to Europe. The correct measure would be for them to obtain from the United States, in exchange for their exports to Europe, the equipment and raw materials required to give continuity to their industrialization process, thus avoiding the exclusive destination of those goods to Europe's reconstruction, to the detriment of Latin American needs.

3) According to Simonsen, the success of the industrialization project would depend on a decisive governmental support, as market mechanisms were insufficient and often detrimental to the intended objectives. Protectionism and planning were the two instruments of state intervention to which the author assigned greater significance. In arguing for protectionism, Simonsen always voiced his ideas with great determination, as in the following passage:

"As for the tiresome controversy between protectionism and free trade that some wish to transplant into our country, no words can be strong enough to regret it. The adoption of doctrines that have been copied or imported from alien countries and that do not apply to Brazilian conditions can only help accentuate our economic depression. In the current stage of civilization and international politics, one cannot conceive of the idea of a nation without that of protectionism. To state that Brazil cannot produce but coffee on an economic scale is to preach the destruction of customs barriers with the chimerical intention of securing, in exchange for that, larger markets for placing this product; it is to admit of transforming the country into a vast coffee plantation, dismantling many of our activities, lowering the standard of living, and promoting a marked regression in our civilization. Free trade stands for the freedom of commerce among nations, with the resulting domination of the strong over the weak, and often to the detriment of the interests and standard of living of less well-equipped nations. Protectionism curbs trade among nations to some extent and for a given lapse of time, but it represents

a great production freedom within the frontiers of the countries adopting it. In effect, in the countries that adopt protectionism, citizens may establish whatever industry they please, provided it rests on a sound rationale, and they are guaranteed to be free from the crush of dumpings or other manoeuvres made by powerful foreign competitors".<sup>7</sup>

Simonsen claimed that save for England, all other industrialized countries had carried out their industrialization on the basis of a strong protectionism. In his famous controversy with Gudín in 1944, he argued that, by condemning protectionism, Gudín seemed to forget that so far free trade was a reality only for those nations whose wealth was already firmly established.<sup>8</sup>

Protectionism was Simonsen's foremost banner in the struggle for industrialization. But it did not amount to an important ideological legacy to the subsequent generations of developmentalists. During his last years and after his death, Brazilian industry had begun to count on a combination of protective factors that did well without protectionist cruzades. The major legacy inherited by Brazilian developmentalists in the decade of 1950 was Simonsen's defense of economic planning. No other ideological factor was as important as Simonsen's determination to legitimize this basic instrument of the industrial development project in Brazil. By the end of World War II, he had already transformed planning into his major revindication. Upon formulating a project for the creation of a Central Planning Board through CNPIC, he stated, in a pronouncement submitted to that agency:

"Should the slow pace of our material progress be maintained, we will be hopelessly doomed to face some profound social turmoil in the near future. The ideas of personal comfort are being spread

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(7) Simonsen, R., À margem da profissão, São Paulo, São Paulo Editora Ltda., 1932, p. 5, quoted in Ferreira Lima, H., História do pensamento econômico no Brasil, São Paulo, Cia. Editora Nacional, 1975, pp. 161-162.

(8) Simonsen, R., "O planejamento da economia brasileira" (rejoinder to Gudín, June 1945), in A controvérsia do planejamento na economia brasileira, Rio, IPEA/INPES, 1977, p. 193.

in increasingly wider circles, and the country's underfed and impoverished population has a legitimate yearning for better food, adequate housing, and proper clothing.

Our current economic structure is unable to provide the population at large with those essential elements of the new economic order.

It is therefore imperative to plan Brazilian economy in such a way as to provide adequate means to satisfy our population's basic needs and to provide the country with a strong and stable economic and social structure, granting the nation the indispensable resources for its safety and its adequate placement within the international sphere".<sup>9</sup>

Just as he accompanied his proposal for industrialization with claims that this process was consonant with agricultural interests and with economic alignment with the U.S.A., Simonsen was concerned with identifying planning with democracy and defended himself against the charges that were typical of the final stage of the "Estado Novo" and that mistook economic liberalism for political liberalism. For example, he managed to incorporate a statement into the conclusions of the Brazilian Industry Congress to the effect that "it is possible to plan a country's economy in a democratic regime while assuring the primacy of private initiative".<sup>10</sup>

4) Simonsen also believed that state intervention in Brazilian economy should go beyond the indirect ways of allocating resources to some activities and include direct investments in those basic sectors where private initiative was not present. In his report to the CNPIC, he stated:

"Given the need to re-equip our economic system and the current state of national resources, national income is virtually at a standstill and there is no possibility, through mere private initiative, of making it grow quickly to the level that is indispensable for assuring a fair economic and social equilibrium.

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(9) Simonsen, R., "A planificação da economia brasileira", report submitted to CNPIC in Aug. 1944, in A controvérsia..., op.cit., p. 33.

(10) Simonsen, R., text for the 1944 Brazilian Industry Congress, in Evolução industrial..., op. cit., p. 103.

This insufficiency of private initiative in several sectors has been acknowledged by the Federal Government, which either directly or indirectly — as in the case of steel, alkalis, anhydrous alcohol, oil, cellulose, aluminum, and war equipment production — has been promoting the establishment of some important activities within the country".<sup>11</sup>

In Simonsen's conception, this intervention corresponded to a natural development of the planning activity itself. Let us see, for instance, the comments immediately following the aforementioned passage:

"Given all these circumstances, it is advisable to plan a new economic structure, so that within a certain lapse of time we may create the productivity and wealth we require to attain an adequate national income".<sup>12</sup>

A good summary of the scope assigned by Simonsen to the planning of "a new economic structure" can be inferred from the following quotation:

"The higher-volume funds obtained from planning should undoubtedly go into the country's electrification, the mobilization of its various sources of fuel, and the organization of its transportation equipment.

The program should embrace the development of a modern agricultural production of foodstuffs, as well as promote adequate means for the intensification of our agricultural production in general.

Some key industries — both metallurgic and chemical — should be created to assure a relative self-sufficiency to our industrial apparatus and to guarantee its indispensable survival within the sphere of international competition.

A whole number of related measures should be adopted: creation of new schools of engineering, diffusion of technological, industrial and agricultural research institutes, and intensification of professional training".<sup>13</sup>

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(11) Simonsen, R., "A planificação da economia brasileira", in A controvérsia..., op. cit., pp. 35-36.

(12) Idem, p. 37.

(13) Ibid., p. 34.

With regard to the basic propositions that formed the developmentalist project of the 1950s, the only item that received little elaboration by Simonsen was the question of financing. In this respect, his major revindication since the early 1930s was the creation of industrial banks. By the end of the war, Simonsen optimistically claimed for strong government-to-government financial support from the U.S. — a claim that is doubtlessly at the root of his opposition to the Marshall Plan.

At the level of a definition of the development project, Simonsen's views are clear, precise, and easy to evaluate. At the level of their analytical content, however, there is a basic difficulty in assessing his work, i.e., the fact that his thoughts, in contrast with liberalism, do not rest upon theoretically elaborate foundations. Simonsen did not live through the fertile decade of elaboration of the so-called "economics of underdevelopment", following World War II, which provided Latin America with ECLA's analytical reply to economic liberalism's theoretical and practical propositions. For that reason, Simonsen's thought hovered above a theoretical void — a difficulty that his predominantly political mind, alien to economic science academies, allowed him simply to ignore. Therefore, he did not use economic theory as a reference for his reflections, except at a very elementary level and in an unsystematic way. In fact, he had very little familiarity with economic theory and an analytical reasoning that was not well defined in economic terms, to the point of occasionally misusing some basic economic concepts.

An examination of Simonsen's work in search for the anti-liberal arguments that are found in the economics of development allows us to identify a few of them here and there. As a foundation for protectionism, side by side with the idea that most nations adopted high customs tariffs, Simonsen referred to two arguments. First, he resorted to history and the concept of an infant industry:

"List conveyed of the enrichment and industrialization of Germany by arguing for the suppression of customs tariffs among the 39 states that would eventually form the German Empire, and by defending the creation of protectionist barriers against foreign countries, which were indispensable for the establishment of industry in its incipient stage".<sup>14</sup>

Second, he enthusiastically referred to Manoilescu's argumentation, which had allegedly demonstrated "the scientific foundations of protectionism".<sup>15</sup> Manoilescu's study of productivity in industrialized and agricultural countries had concluded that industry was superior to agriculture, from which statement a number of conclusions were drawn to support protectionism. Simonsen not only reproduced those conclusions but also arranged for a translation of Manoilescu's book to be made and published by CIESP.<sup>16</sup> Besides the protectionist argumentation, Simonsen was no doubt attracted by Manoilescu's idea that productivity is higher in the industry because technological progress is a primarily industrial process.

Three other generic arguments for an industrialization program can be found in Simonsen's work, always in scattered and unsystematic form. First, and less often than might be expected of a heterodox economist in the decades of 1930 and 1940, he alluded to the problem of a vulnerability to economic crises, the solution for which would lie in strengthening the domestic market, as stated in the following extract from a speech delivered at the Constituent Assembly of 1934:

"Given the anarchy in which the world is now wiggling, the special situation in which Brazil finds itself, where it is easy to obtain

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(14) Simonsen, R., As finanças e a indústria, São Paulo, São Paulo Editora Ltda., 1931, p. 43.

(15) Idem, p. 45.

(16) Manoilescu, M., Teoria do protecionismo e da permuta internacional, São Paulo, CIESP, 1931. Jacob Viner provided a sharp theoretical reply to Manoilescu's anti-Ricardian challenge in "Mihail Manoilescu on the theory of protection", in International economics, Glencoe, Ill., Free Press, 1951, pp. 199-201. (Viner's original paper dates back to 1931).

the elements that are indispensable to subsistence, and the lessons to be learned from our own past; a conclusion imposes itself upon us: the purchasing power of Brazilians has to be incremented, specially through the valorization of our manpower and the development of commerce and industry within the country. This is the great lesson to be learned from our own and the world's economic history".<sup>17</sup>

Second, Simonsen claimed that international markets were growing increasingly smaller in relation to Brazil's primary production. His explanation for this was given in a language that was occasionally rather aggressive for an entrepreneurial leader: "The imperialistic policies of great colonizer nations and the abject price of Asiatic labor are largely responsible for our weak contribution to the world market for tropical products".<sup>18</sup> Simonsen was strongly opposed to the liberal attitude toward this problem:

"Purists from the so-called liberal school will say that the inexorable economic laws will remedy the problem in the course of time, suppressing this excess in production through the bankruptcy and abandonment of farming. ... It is the law of the survival of the fittest. But economic history repeatedly shows that in the current state of civilization, one cannot and must not leave populations at the mercy of such law's iniquitous results".<sup>19</sup>

We must bear in mind that although Simonsen often mentioned the problem of agricultural overproduction, he did not explore the anti-liberal argument of "underemployment", as did ECLA, for instance, in referring to subsistence economy. His reference to the problem of underemployment in a text dated 1947, where he compared the objectives of planning in American and Brazilian economies, indicates that he was beginning to elaborate on this issue at the end of his life:

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(17) Simonsen, R., Ordem econômica e padrão de vida, São Paulo, São Paulo Editora Ltda., 1934, p. 26.

(18) Simonsen, R., "O planejamento da economia brasileira", op. cit., p. 201.

(19) Simonsen, R., "A superprodução de café e a economia nacional", in A indústria face à economia nacional, S.Sp., Empresa Gráfica da Revista dos Tribunais, 1937, p. 75.

"In one of the conferences I made while the international conflict was still under way, regarding some aspects of post-war economic problems, I anticipated that the U.S.A. would come out of the conflict enriched by the strengthening of their basic production factors. For their post-war policies would be guided by the concern with maintaining high standards of living for the American people and fighting unemployment. As for countries like our own, I have demonstrated that, there being no unemployment to fight, our topmost concern should be the increase of national income, a corollary of which is the struggle against qualitative underemployment. The suggestion I presented in 1944 to the National Industrial and Commercial Policy Council for the Planning of Brazilian Economy was elaborated from the same perspective".<sup>20</sup>

Finally, we find an argument in Simonsen's work that was a fore-

runner of structuralism:

"With the fast populational growth, the increase in our indices of civilization, and competition from other nations that produce similar goods, our 'per capita' exports have been falling either in terms of absolute or relative values. We export increasingly less in relation to our consumption. A disequilibrium thus occurs in the major elements composing our balance of payments. Our exchange rate drops. Budgetary imbalances are accentuated."<sup>21</sup>

This argumentation, as in the future case of ECLA, accompanied a proposal for state control over foreign trade with a view to economic development:

"The observation of our past, of that which is our own, with an objectivity that deviates from exotic doctrines, leads us to the firm belief that an important step toward strengthening our economy must be the curtailment of purchases to the best of our possibilities and the selection of our imports on the basis of the criterion of our needs and our economic development.

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(20) Simonsen, R., "O Plano Marshall e um novo critério nas relações internacionais", conference made at the Military Club in April 1946, reprinted in Simonsen e a Operação Pan-Americana, São Paulo, FIESP, 1958, p.45.

(21) Simonsen, R., A indústria face à..., op. cit., pp. 48-49.



Foreign exchange credits must be reserved for the acquisition of our defense apparatus, our economic equipment, and for the payment of services rendered by foreign capital, which we need so badly to promote our wealth.

The disorder and orgy of our imports preclude an equilibrium in the cycle of our economic and financial flows".<sup>22</sup>

Considering the characteristics we have highlighted, Simonsen was a pioneer thinker for all developmentalist currents. Viewed from other perspectives, however, his thought was typical of the private sector developmentalist strand. A case in point is his stance regarding wage questions, as well as his advocacy of private profits in general and his argumentation relative to the problem of controlling inflation. We shall revert to this point later on.

### iii. CNI and the continuation of arguments in favor of planned industrialization

In the private sector, no substitute was able to match Simonsen in his role as an ideologist of developmentalism after his death. But the very process of industrialization and the resulting strengthening of the industrial class provided an adequate atmosphere for the preservation and expansion of developmentalist ideology within the private sector. In our introductory remarks we have already referred to the existence of nuclei of economists, both within and without CNI, who gave continuity to the line of thought that had been under Simonsen's leadership in the decades of 1930 and 1940. The writings by other previously mentioned authors follow the same direction, as may be attested by the reading of journals like Estudos Econômicos and Desenvolvimento e Conjuntura (published by CNI), as well as Revista de Ciências Econômicas. At this point, in order to abbreviate our review, it is enough to highlight the political-ideological expression of the industrial class.

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(22) Simonsen, R., A indústria face à..., op. cit., p. 49.

Before Simonsen's death, the two major industrial class meetings had been the First Brazilian Industry Congress (São Paulo, 1944) and the First National Conference of the Entrepreneurial Classes (Teresópolis, 1945). The section on "Industrial and Mineral Production" of the Teresópolis Economic Letter reaffirmed the principles of the 1944 Congress and stated:

"The entrepreneurial classes declare their belief that the progress of national economy is closely related to the country's industrialization, in that the latter, besides allowing for an increase in national income, assures production diversification, which is an indispensable element to that stability and progress.... As a guiding criterion for state action, they suggest a preliminary distinction between key- and strategic industries, on the one hand, and the remaining industries on the other. The former should be more directly subject to state action — whether fiscal, auxiliary or even creative — where private initiative should be in default or inadequate. Other industries outside this group should receive special attention, but only when so required, and state interference must restrict itself to safeguarding the common welfare".<sup>23</sup>

The foregoing text, which was probably written by Simonsen, was heartily welcomed by industrialists attending the meeting, but was merely acknowledged (on behalf of the "harmony" among entrepreneurs coming from distinct economic sectors) by conservative commercial leaders. Such is the impression gathered from the general tone of the Letter of Principles, which is often ambiguous and marked by the liberal inclination of the wording of the section concerning trade. Inversely, the final text of the Second National Conference of the Entrepreneurial Classes (Araxá, 1949) shows much more uniformity in terms of a developmentalist perspective. At that point, Simonsen was only indirectly influential, as the Second Conference was held after his death. The major motivation for this change was that, by 1949, the dominant issues concerned the difficulties in foreign trade and in re-equipping national economy.

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(23) I Conferência das Classes Produtoras, Carta Econômica de Teresópolis, Teresópolis, 1945, pp. 6-7.

Frustrating the entrepreneurs' expectations of the closing wartime years, international trade continued to pose problems and re-equipment could not be effected on the desired scale.<sup>24</sup> This caused the commercial section of the Araxá Letter, in sharp contrast with that of the Teresópolis Letter, to declare that "in strengthening the domestic market lies the basic foundation of a greater soundness in our economic structure".<sup>25</sup> This statement is perfectly consistent with the section's recommendations regarding industrial policies, among which we read, for instance, that "the development of industry in general will be accelerated by the creation and expansion of heavy industry and of the industry producing basic raw materials".<sup>26</sup>

Industrial entrepreneurs' meetings during the 1950s had a clearly developmentalist inclination. The introductory remarks of the text written at the First Plenary Meeting of the Industry, promoted by CNI, includes a statement that finds confirmation in the rest of that text:

"The Industry's Plenary Meeting, by virtue of the extraordinary character of its own convocation, does not represent a traditional conclave in the sense of making long-term recommendations, and defining and structuring a platform for the nation's economic and financial policies. Such policies have already been clearly outlined in the conclusions reached at the Conferences of the Entrepreneurial Classes both in Teresópolis and Araxá".<sup>27</sup>

The Second Plenary Meeting of the Industry (held in 1955) maintained the general developmentalist orientation. The closing speech delivered by Augusto Viana Ribeiro dos Santos, President of CNI, reminds us of the eloquence and cultivation of Simonsen's pronouncements. Concerning the topic of "Spontaneous Development and Programming", for instance, Ribeiro dos Santos stated:

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(24) See, in this respect, section 2.2, Part II of this thesis.

(25) II Conferência das Classes Produtoras, Recomendações, Araxá, 1949, p. 117.

(26) Idem, p. 44.

(27) CNI, I Reunião Plenária da Indústria, São Paulo, May-June 1953, p. 4.

"The problem must be objectively stated in terms of a choice between an improvised and chaotic development that is liable to imbalances, and a programmed development where one may aim to attain a maximum return with a minimum of friction and instability.

Economic development programming implies, of necessity, state intervention. ... The problem lies not in judging whether this intervention should be increased or reduced. One of the main objectives in programming is precisely to define, on the basis of accurate investigations and in-depth analyses, what the state must do for private initiative to be exercised to the largest extent possible and with maximum efficiency. This means, in the first place, an operational and precise identification of the areas where governmental action must be applied, and secondly, the determination of the forms and modalities it must assume. Only by establishing a program can the irrationality and empiricism of state intervention be eliminated. Greater still than the extent and depth of public initiative and action in our country, as one must forcibly admit, has been its disorderly if not chaotic character".<sup>28</sup>

The two other Plenary Meetings promoted by CNI (in 1957 and 1960) confirmed that developmentalism had been properly assimilated by the leading industrial entrepreneurs. The still controversial issues, as we can tell from the annals of the four Plenary Meetings, were the state's direct participation and foreign capital participation in Brazilian economy. With regard to these questions there never seems to have been unanimity among Brazilian industrial entrepreneurs.

#### iv. Private sector developmentalism and the interests of private industrial accumulation

Private sector developmentalism was distinguished from its public sector counterpart by the emphasis given to questions pertaining to national private capital's profitability. The current devoted special attention to three basic issues: (a) market preservation, a question that affected the ap-

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(28) Ribeiro dos Santos, A.V., A indústria e o desenvolvimento econômico, CNI, p. 19.

proach to the problem of state and foreign investments and the problem of protectionism; (b) opposition to wage raises and increases in profit taxation; (c) support to credit expansion, or a struggle against credit retraction. The arguments relating to the last two issues were generally brought up in the debate about the inflationary process. Also in that debate there emerged a thesis supporting development financing through a mechanism of forced savings, which was, in the period under study, the only effective proposal favoring income concentration as a means to promote economic growth. In the text that follows, we shall attempt to present a brief characterization of the positions assumed by the private sector developmentalist current regarding these four areas of entrepreneurial interest. In closing our comments, we shall refer briefly to the positions taken by this current's economists with respect to questions in which private sector's interests did not lead to a differentiation from the positions of public sector developmentalists.

a) State capital, foreign capital and protectionism

Roberto Simonsen may be viewed as a radical as concerns the acceptance of state investments. For him, as well as some other leading authors, those investments are a natural development of economic planning. But this view did not seem to be unanimous among private sector developmentalists: more likely than not, the assimilation of the concept of planning did not always go that far and was frequently restricted to a general acceptance of governmental support to private industrial accumulation. The formula used by industrialists to provide a collective and unanimous position consisted of recommending that they be consulted in the event of any state investment project.

Simonsen himself used that formula. To attenuate the radicalism of his proposals about planning and state investments in the infrastructure and in heavy industry, for instance, here is how he expressed himself in a text presented to CNPIC in 1944:

"The extent of state intervention must be studied in co-operation with the various class agencies, so that within the terms of our Constitution private initiative should be used to its utmost, and those activities already operating in the country do not suffer any damage in view of the installation of new competing initiatives".<sup>29</sup>

This orientation reappears innumerable times. In the Teresópolis Economic Letter, for example, the "entrepreneurial classes" asserted that "an indirect form of state action is preferable with the aim of creating favorable conditions for the development of private activities. In the event of a direct action, the state must hear the classes concerned in advance, attend to the situation of consumers, and, whenever possible, give private capital a participation in the investment and in management".<sup>30</sup> The recommendations of the Araxá Conference are no different:

"In those instances, however, when under the pressure of common welfare impositions the Public Power is led to perform activities that are normally restricted to the sphere of private economy, the Entrepreneurial Classes insist on being heard in advance and demand that state action be preferably indirect, providing conditions that may assure the development of private initiative".<sup>31</sup>

The Industry's Letter of Principles, approved at the Second Plenary Meeting of the Industry promoted by CNI in 1955, stipulated limits for state ownership of companies and recommended:

"Intervention, in the form of state ownership of the means of production, whenever national security should so require or when the undertakings exceed the capacity of private initiative, with due observance of the following conditions:

- a) Advance hearing of the National Economic Council and of the classes concerned through their representative agencies;
- b) Free participation of private capital in the investment and management of the undertakings;
- c) Compliance with consumers' conveniences."<sup>32</sup>

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(29) Simonsen, R., "A planificação da economia...", op. cit., p. 36.

(30) Carta Econômica de Teresópolis, op. cit., p. 141.

(31) Recomendações (Araxá), op. cit., p. 141.

(32) CNI, Carta de Princípios da Indústria aprovada na II Reunião Plenária da Indústria, Porto Alegre, 1955, p.13.

The subsequent Plenary Meeting, held in 1957, recommended item "a" above, supplementing it with the explanation that advance hearing aimed to "assess the interests and possibilities of private initiative regarding the undertaking in question".<sup>33</sup> Item "b" was correspondingly amended, its original wording being replaced by an acceptance of the fact that private capital participation should not be mandatory.

The 1957 Plenary Meeting brought another important amendment to the Letter of Principles of 1955, where there was a declaration of the principle of "suppression of state monopoly for the exploration of the country's mineral resources, including oil".<sup>34</sup> That had been the first and perhaps only time when industrialists collectively expressed their opposition to a nationalist solution in the case of oil. During the many years of debates prior to the creation of Petrobrás in 1953, what one observed among entrepreneurs was an impossibility of making collective statements, which reflected the existence of a wide diversity of opinion regarding that problem. Such is, for instance, the feeling experienced in reading the news about the Araxá Conference and the final text issued at that meeting. The Plenary Meeting of the Industry held in 1957 confirms this interpretation. Its final text showed the following declaration, which amended the Letter of 1955:

"Upon studying the specific topic of State Intervention and after discussing the proposals concerning state monopoly over oil, an amendment [to the 1955 Letter] has been approved with the following wording:

Industry reasserts its belief that free initiative is the choice factor for the country's progress and enrichment. Given the current political and economic conjuncture, however, it accepts and wishes to express a vote of confidence in Petrobrás for the results obtained in the performance of its work. The Federation of Industries of the Federal District has voted against this proposal and justified its vote in a declaration that is appended to this report. The Fed-

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(33) CNI, Relatório Geral da III Reunião Plenária da Indústria, October 1957, p. II.

(34) CNI, Carta de Princípios..., op. cit., p. 23.

eration of Industries of Rio Grande do Sul, which has abstained from voting, prepared a declaration of vote which is also enclosed herewith".<sup>35</sup>

Concerning state intervention in those activities where the only other feasible alternative would have been foreign capital, we must bear in mind that the case of oil is the only one regarding which industrialists held on to a predominantly nationalist inclination. In the case of electric power, which was the other major sector motivating a long controversy, their position was distinctly favorable to foreign capital. In all of their collective statements, for instance, there was a recommendation to suppress the "criterion of historical costs", i.e., to eliminate the legal impediment to service charge readjustments to compensate for inflation, which had been introduced by the 1934 Water Code and which, in their opposition to nationalist claims, the international companies that dominated the sector pointed to as being the chief reason for the inadequacy of energy expansion in Brazil.

Private sector developmentalists' qualification regarding foreign investments obeyed the rationale of their restrictions concerning state investments. In essence, what they wished to do was preserve national capital against the unequal competition of far more powerful foreign-owned companies. Similarly to the question of state investments, this is a subject to be analyzed through a number of case studies. For instance, a study of the decision-making process during Kubitschek's government with respect to foreign capital allocation to distinct sectors would undoubtedly be an excellent field of investigation for political scientists interested in Brazil's state/entrepreneurs relationships. In terms of the more limited scope of our analysis, it suffices to give some indications of the aforementioned concern about market preservation.

In the Teresópolis Letter, for instance, a recommendation to the ef-

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(35) CNI, Relatório Geral da III Reunião..., op. cit., p. II.



fect that "foreign capital inflow should be facilitated and stimulated" is followed by the statement that "it would be convenient to direct foreign capital investments to commercial, agricultural and industrial branches that are still unexplored in Brazil".<sup>36</sup> The Letter further states that it is "advisable, for the sake of mutual interests, that national capital participate in foreign capital investments, with an active co-operation of Brazilians in the top management of the companies in question".<sup>37</sup> The Araxá Conference of 1949, on the other hand, favored the attraction of foreign capital without the foregoing reservations. And this is understandable: international capitals were busy reconstructing Europe in those days and simply did not flow into Brazil.

The industry's Letter of Principles elaborated at the Plenary Meeting of 1955 reintroduced the qualifications, upon recommending

"Facilitation of foreign capital inflow with economic and social objectives, by means of a concession of guarantees and an equitable tax and exchange rate treatment, with due safeguard of the country's basic interests and avoiding any discrimination against national companies; increased introduction of technicians and equipment to assure the success of those investments that are of real interest to our economy, except in those cases where national industry already supplies the domestic market adequately".<sup>38</sup>

Among the facilitating measures recommended, entrepreneurs preconized, throughout most of the 1940s and 1950s, ample freedom for the movement of capital and for profit remittances, limited solely by the availability of foreign exchange credits. A change of attitude was to take place at the 1957 Plenary Meeting: "fair as it is to claim the investing country's right to repatriate the proceeds of the capital invested, it is also unquestionable that the recipient country is entitled to defend itself against any eventual losses of substance, repatriation being conditioned to the possibilities of national

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(36) Carta Econômica de Teresópolis, op. cit., p. 9.

(37) Idem.

(38) CNI, Carta de Princípios..., op. cit., p. 33.

economy".<sup>39</sup> This text, which was a forerunner of the nationalist revival of the late fifties and early sixties, when some local entrepreneurs supported the 1962 legislation on profit remittances, also voiced a protest against SUMOC's Instruction no. 113, introduced by Minister Eugênio Gudin in 1955, which allowed foreign capital to import equipment without the necessary exchange coverage. This protest accompanied a number of recommendations that are worth transcribing:

- "1. Elaboration of a legislative document that, in regulating the inflow and investment of foreign capital in the country, should sanction the rule that investments of Brazilian origin must share at least identical prerogatives and privileges to those granted to foreign undertakings. In this sense, it is advisable that the National Confederation of Industries give support to the promulgation of a new tax legislation, elaborate a replacement for Instruction no. 113 of the Money and Credit Superintendency — which, aside from being incomplete, has not been regularly observed —, in order to sanction the aforementioned equality, and forward this replacement to the competent authorities.
2. Selection of foreign capital according to a criterion of priority for admission into the country, so that this capital may be channelled to the basic and essential sectors of industrial activity that are not adequately covered by national industry, and that it may be allocated preferably to less developed economic areas.
3. Determination that the remittance of profits, interest and amortizations on foreign capital must not be effected at the expense of special exchange rates or taxes.
4. Ban on equipment imports by foreign-owned companies at lower exchange rates than those applicable to companies owned by national capital.
5. Participation of agencies representing industrial and agricultural classes, as the case may be, in the examination of requests for authorization of new foreign investments, and publication of advance notices about said requests in SUMOC's Bulletin.
6. Ban on the concession of loans by state-owned and mixed capital

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(39) CNI, Relatório Geral da III Reunião..., op. cit., p. III.

credit agencies to companies whose foreign capital participation should exceed 50% of their capital".<sup>40</sup>

Instruction no. 113 gave rise to additional objections, such as the one raised by developmentalist Nuno Fidelino de Figueiredo in 1955 in Revista Econômica Brasileira. We shall revert to this question in section 2.3 of Part II of this work.

The third area concentrating the attention of private sector developmentalists who aimed to preserve the domestic market was protectionism. In this particular case they had the support of other developmentalists, but by and large they were the leaders of the campaign. In section 2.1, Part II of this thesis, we show that in the controversy about protectionism at the end of World War II there was a sharp difference between the radical argumentation of developmentalists like Simonsen and Humberto Bastos, who were linked to the CNI, and the moderate argumentation of public sector developmentalists like Anápio Gomes and Rômulo de Almeida.

During the 1950s, the protectionist campaign lost some of the importance it had enjoyed in the previous decades. Once in a while a text was written to challenge liberal theses, as was the case of an article by João Paulo de Almeida Magalhães and Knaack de Souza, who, following ECLA's line of thought, argued that underemployment made the opportunity costs of industrial investments exceedingly small, thus justifying them even when they required high protection.<sup>41</sup> But the position of those who advocated protectionism was relatively easy, as the permanent shortage of foreign exchange credits after 1947 and the exchange rate policies then adopted fully replaced customs tariffs, which were gradually eroded by inflation in view of being fixed. In 1957, an extensive customs reform elaborated with the approval of entrepreneurs was introduced without much resistance. This reform put an end

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(40) CNI, Relatório Geral da III Reunião..., op. cit., p. V.

(41) Magalhães, J.P.A. & Knaack de Souza, "Eugênio Gudín", Revista Econômica Brasileira, April-June 1955, pp. 126-128.

to a series of controversies about protectionism that had known their climax in the 1930s and 1940s, and which had been going through a declining phase since the immediate post-war period.

b) Taxation and wage raises

The commitment with the preservation of entrepreneurial profit rates was one of the basic characteristics of private sector developmentalists, distinguishing them from their public sector counterparts. They made their presence felt in the debates involving distributive questions, capital and labor, and private and public sectors, by adopting a clear and straightforward position. In this respect, they followed the argumentation of entrepreneurial leaders, which was unsophisticated. As a rule, it rested upon one and the same principle, i.e., the principle that national investment, and therefore income and employment increases, relied essentially upon private profitability. Let us begin by examining what happened as to the positions adopted in regard to taxation.

The Teresópolis Economic Letter recommended avoiding "excessive taxation through direct taxes, as it discourages the formation of new capitals and drives foreign capital away".<sup>42</sup> The Recommendations of the Araxá Conference did the same: "... "that the taxation of legal entity profits be reduced so as to stimulate capital investment in productive and commercial activities; that the income tax legislation stimulate the build-up of reserves and the re-equipment of companies by means of an adequate system of fiscal exemptions and privileges".<sup>43</sup> The 1955 Letter of Principles of the Industry reasserted the proposition of a "curtailment of direct taxes so as not to discourage internal investments and foreign capital inflow".<sup>44</sup> CNI's developmentalist economists were committed with this position. João Paulo de Al-

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(42) Carta Econômica de Teresópolis, op. cit., p. 13.

(43) Recomendações (Araxá Conference), op. cit., p. 108.

(44) CNI, Carta de Princípios..., op. cit., p. 45.

meida Magalhães, for instance, in a discussion with Celso Furtado, challenged the latter's proposition that the income distribution of the early fifties in favor of private capital had not resulted in an increase in national savings. Furtado had stated that high income groups have an excessive consumption in Brazil, thus making it imperative for the state to enforce fiscal policies that may give impetus to development. Magalhães challenged that assertion saying that the marginal propensity to save in high income classes is inevitably higher than in lower bracket ones, and that therefore no fall could have taken place in the savings rate, as indicated by Furtado. And he further characterized Furtado's stance as resulting from a "systematic pessimism regarding private sector's potential contribution to a general developmental policy".<sup>45</sup>

With respect to the wage question, the position of private sector developmentalists was identical in content. As a general principle, industrial leaders accepted state intervention in stipulating the minimum wage payable. But they complained repeatedly about the burden of labor charges and minimum wage readjustments. The Pronouncement on Industrial Production prepared at the Araxá Conference, for instance, showed the following conclusion: "the inevitable relationship between production costs and labor charges makes it necessary to adjust prices whenever there is a wage increase determined by a decision of the Special Labor Courts".<sup>46</sup> The general distributive principle featuring in collective statements, however, was that of "improving real wages through an increase in technical and individual productivity and by fostering the production of general consumption goods and services".<sup>47</sup> A study of the wage conflicts of the period 1945-1964, which we have not carried out, would alone enable us to say how far that principle was

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(45) Furtado's text is one of the chapters of "Esboço de um programa de desenvolvimento para a economia brasileira (1955-1962)", elaborated by the Joint ECLA/BNDE Group. His criticism of Magalhães's position appeared in *Revista Econômica Brasileira*, Jan.-March 1955, pp. 44-46, under the heading "Setor privado e poupança".

(46) *Recomendações* (Araxá Conference), op. cit., p. 56.

(47) CNI, *Carta de Princípios...*, op. cit., p. 49.

assimilated by entrepreneurs in practice. At the level we are concerned with here, i.e., that of the positions assumed by developmentalist economists in the private sector, what we do observe is a resistance to wage rises that might jeopardize the prevailing profit rate. For example, CNI's Economic Department, through Revista de Estudos Econômicos, voiced its objection to employee participation in company profits, which had been instituted by the Constitution of 1946 in anticipation to a subsequent legislation that never did get approved: "The mandatory direct participation of laborers in company profits creates obstacles to economic development and to the consequent rise in the country's standard of living".<sup>48</sup> And the editorial of the October 1958 issue of Revista Desenvolvimento e Conjuntura, amidst several criticisms addressed against the threat of an economic recession implicit in Lucas Lopes/Campos Program for Monetary Stabilization, stated that:

"Any attempt at monetary stabilization can only be successful if it stems from a clear conception of the causes accounting for the inflationary process. As for the case under study, we have but to ask about the reasons for the recent aggravation in that process. We shall find them in the latest readjustment granted to civil servants and in minimum wage readjustments, which have largely surpassed the cost-of-living indices since 1954. In economic terms, those increases represent an augmented overall consumption, and therefore a reduction in investments".<sup>49</sup>

CNI was also the birthplace of the only Brazilian formulation of the thesis of forced savings as an adequate means to finance economic development. Its author, Almeida Magalhães, argued for a temporary preservation of an inflationary financing of capital accumulation at the expense of wage workers, until forced savings could be replaced by voluntary savings.

This thesis stood as an improvement upon an argumentation that had

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(48) CNI, Economic Department, Revista Estudos Econômicos, June 1950, p.144.

(49) Editorial body of Revista Desenvolvimento e Conjuntura, editorial of the October 1958 issue, p. 3.

been developed at CNI since the late 1940s, challenging anti-inflationary policies based upon credit retraction. We shall revert to this point later.

c) The credit question

Among all economic debates of the period 1945-1964, none was as frequent as the discussion about credit policies. The explanation for this is quite obvious. There was, on the one hand, an intermitent inflation. On the other, entrepreneurs' unrestricted access to public expression channels made room, in economic literature, for what had always been their primary revindication: credit expansion. Only the intensity of struggles for credit showed some variation, being heightened under contractionist policy conditions, as in the years 1947-1948, 1955, and 1958-1959. True enough, entrepreneurs accepted the general proposal to curb inflation. But they argued for monetary stabilization, proposing that anti-inflationary measures be chiefly directed against three factors: public deficits, wage raises, and the scarcity of food products. They repeatedly claimed that credit restriction could be warranted only in a selective sense, affecting speculative sectors alone, so that there were no shortage of the working capital required to expand production. "Selective credit" was a constant argument in entrepreneurs' speeches and claims regarding the question of inflation, as well as in pronouncements made by Finance Ministers and governmental officials in the monetary area.

The claim for credit expansion, or the objection to credit contraction, was an element reinforcing developmentalism. Even those entrepreneurs who were alien to developmentalist problems and engaged in short-term issues subscribed to the developmentalist orientation, which, stated as it was in the Teresópolis Letter, became frequent in their views: "It is an accepted principle among entrepreneurial classes that monetary policies must be subordinated to the general economic policy of fostering productive activities and expanding national capital".<sup>50</sup> By the same token, the Commission in

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(50) Carta Econômica de Teresópolis, op. cit., p. 12.

charge of Capital, Credit and Banking at the Araxá Conference held in 1949 gave the heading "Credit policy subordinated to the fostering of productive activities" to the first section of the final text conveying their recommendations.<sup>51</sup> And the industry's 1955 Plenary Meeting, following the example of former entrepreneurial encounters, recommended "an attack against inflation to stimulate voluntary savings and eliminate the distortion in investments, subordinating [the attack], however, to the general policy of economic development, so that the country's progress is not even temporarily disturbed or interrupted."<sup>52</sup>

Several developmentalist economists in the private sector devoted themselves to combating contractive policies. This was true, for instance, of Djacir Menezes, Roberto Pinto de Souza, and João Paulo de Almeida Magalhães. One of the arguments employed by these authors was that, in Brazil, it was useless to follow theoretical models imported from economically mature countries to define monetary policies, as Brazilian inflation did not stem from a rigidity in labor supply. The most sophisticated treatment to this proposition was given by Magalhães at CNI, along with his defense of the mechanism of forced savings as a means to finance development.

#### d) Magalhães's proposal of forced savings

As of the mid-fifties, Almeida Magalhães was the chief economist at CNI. He placed himself at the service of that agency in opposing orthodox stabilization policies, which, with their promise of cuts on credit and investments, were perceived by CNI as the bearers of recession. For this purpose, Magalhães did not adopt the structuralist formula, which begs the Keynesian theoretical discussion and displaces the problems of inflation to the long-term field. On the contrary, he started off from the Keynesian model itself, challenging its premisses to justify inflation as a growth mechanism

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(51) Recomendações (Araxá Conference), op. cit., p. 91.

(52) CNI, Carta de Princípios..., op. cit., p. 4.



even under conditions of supply inelasticity. We must bear in mind that he was led to this formulation by the fact that the main proponents of contractive policies, such as Gudin and Bulhões, made use of a Keynesian claim to support their proposals, pointing out that the full employment of productive factors eliminated monetary policies as a growth-stimulating factor.

Magalhães accepted the idea of the existence of full capacity or full use of the capital factor, but stressed that the abundant labor availability determined a substantial alteration in the treatment to be given to the question of inflation. He used Harrod-Domar's model to make his point clear: in the case of advanced economies, the "ceiling" for growth is rigid in that it corresponds to full employment of the labor factor, whereas in underdeveloped economies like Brazil, where there is underemployment, the "ceiling" corresponds to capital shortage. It is therefore a flexible ceiling as compared to that of economies with a scarcity of labor, and it can be displaced by an accumulation of savings. Magalhães's proposal for this displacement, conveyed through CNI, was that the financing of additional capital should be promoted through inflation, by means of a reduction in workers' real wages.<sup>53</sup>

Inflation would thus play a crucial role in the Brazilian economic development. According to Magalhães, "in contrast with countries that have a mature economy, forced monetary savings may have a permanent character in underdeveloped countries".<sup>54</sup> In Brazil, the wage-earning classes do not have sufficient political power to impose mobile wage scales. However, given the economic and political problems generated by the inflationary process, the ideal solution would be a gradual reduction of inflation without jeopardizing the growth rate. In Magalhães's opinion, "the problem lies, in practice, in convincing workers that they must voluntarily give what was formerly surrep-

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(53) Magalhães's proposal was presented in different texts and underwent progressive improvements. Its most elaborate version appears in Magalhães, J.P.A., A conjuntura brasileira sobre o desenvolvimento econômico: uma reformulação, Rio de Janeiro, Record, 1964.

(54) Magalhães, J.P.A., A controvérsia..., op. cit., pp. 163-164.

titiously taken away by inflation".<sup>55</sup> Alternatively, or as a complement to that, one should seek to replace forced savings by voluntary savings.

In Magalhães's first text about inflation curbing, published in 1954, the proposal was still that of curtailing consumption directly through the enforcement of new taxes, which would be sterilized. According to him, this was the right way to check inflation without affecting the level of investments, i.e., to bridge the "inflationary gap" without provoking a recession. That proposition was restated in 1958 as a subsidy for discussions about the Monetary Stabilization Program, and replaced in 1960 by the thesis of forced savings, then presented in preliminary form and later subjected to successive reformulations.<sup>56</sup>

- e) The positions taken with regard to other basic issues in  
Brazilian political economy

The questions analyzed above cover the main differences between private sector developmentalists and their public sector counterparts. As for other basic questions, it is harder to draw a distinction between developmentalist currents. A typical example of identical positions concerns the foreign trade issue. In this respect, in contrast with the treatment given to the inflationary question, private sector developmentalists assimilated the structuralist thesis adopted by public sector nationalists. It would be monotonous to give an account of the positions taken by economists like Almeida Magalhães, Nuno Figueiredo or Pinto de Souza. They all followed approximately the same line of argumentation pursued by the President of CNI, Augus-

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(55) Idem, p. 166.

(56) The basic sequence of writings is as follows:

- a) Magalhães, J.P.A., "Condições teóricas do desenvolvimento" (part 3), Estudos Econômicos, July-Dec. 1954, pp. 122-134.
- b) Editorial staff of Revista Desenvolvimento e Conjuntura, "Estabilização monetária e desenvolvimento econômico", Oct. 1958 issue, pp. 7-18 (this is a slightly modified version of their former work).
- c) Editorial staff of Revista Desenvolvimento e Conjuntura, "O programa de estabilização", Dec. 1958 issue, pp. 7-117.
- d) Editorial staff of Revista Desenvolvimento e Conjuntura, "Inflação, estagnação e desenvolvimento", Aug. 1960 issue, pp. 19-29.
- e) Magalhães, J.P.A., *A controvérsia...*, op.cit.

to Viana Ribeiro dos Santos, in a speech delivered in 1955: "Developmental policies find a determining factor in the balance of payments. It is now a well-known fact that our import capacity tends to grow less than the demand for imports that stems from increases in national income. There we find the structural origin of the disequilibrium in the balance of payments".<sup>57</sup>

In his analysis dated 1955, Ribeiro dos Santos went beyond merely supporting heterodox exchange rate policies, which had been supported by industrial entrepreneurs since the late forties as part of their argumentation for "economic re-equipment": he actually proposed an import-substitution program whose wording reminds us of Celso Furtado's then newly completed work at the Joint ECLA/BNDE Group:

"By their own character, however, short-term measures are not likely to give the problem a lasting solution. Actually, the solution is to be found in the internal policy of investments itself, as geared to an intensive substitution of imported products by national production, and not in policies that utilize the country's natural resources to diversify exports. A strict coordination therefore becomes imperative between the internal policy that influences the volume and direction of both investments and consumption, and the policy concerning foreign transactions. In face of the behavior of our import capacity, such program must assess the necessary import substitution effort, as well as the sectors to which it must apply".<sup>58</sup>

The identity of perspectives between CNI and ECLA extended to the question of the Latin American common market. Eight years before the creation of LAFTA, i.e., in 1953, the First Plenary Meeting of the Industry proposed "that economic policies be steered toward an integration of Latin American markets".<sup>59</sup>

Also in regard to the question of establishing long-term financing

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(57) Ribeiro dos Santos, A.V., A indústria e o desenvolvimento econômico, op. cit., p. 21.

(58) Idem, p. 22.

(59) CNI, Primeira Reunião Plenária da Indústria, 1953.

banks there was an agreement between private and public sector developmentalists. As pointed out in chap. 2.2 of Part II, the establishment of an agency to finance basic investments for industrialization proved so indispensable that the Fund for Economic Re-equipment, essentially formed by special taxes, and the bank to be entrusted with its management (the BNDE) were widely accepted, breaking through a traditional entrepreneurial blockade against taxation raises.

Finally, we should also highlight the similarity of points of view regarding the land reform issue. In this respect, though nationalist developmentalists tended somewhat more to the left than their private sector counterparts, the latter were also sensibilized to this question. They further shared with nationalist developmentalists the characteristic of not privileging the discussions about this matter. Some contrasts were observed only in the early 1960s, when nationalist developmentalists began to be more closely involved with distributive questions.

### 3.3. The Public Sector: Non-Nationalist Developmentalism

#### i. Introduction

As formerly indicated, there were two strands of developmentalist economists in the Brazilian public sector. The largest one was composed of nationalists. The other current, which had few members but was rather active and influential in governmental circles, was composed of economists who believed that foreign capital could bring a large contribution to the country's industrialization process.

Developmentalism was an economic ideology that had strong links with nationalism ever since its early origins in the decades of 1930 and 1940.<sup>1</sup> At that time, there was a marked ideological inclination, on the part of most of the adherents to the project of overcoming Brazilian underdevelopment via

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(1) See, in this respect, section 1.1, Part II of this work.

industrialization, towards distrusting the possibility of obtaining positive co-operation from foreign capital to this project. The more radical economists viewed foreign capital as a monolithic block of imperialistic interests that were opposed to this program. Even among moderate economists the dominant view was that, at least in those sectors that are essential to industrialization (energy, transportation, mining, etc.), the state should hold control over the decision-making process to displace foreign capital or block its inflow.

The predominant tendency in the public sector was scepticism toward the possibility that foreign capital might have a significant participation in Brazilian industrial production, or any long-term interest in the industrialization process. The current we have termed "non-nationalist" for want of a better expression was composed of developmentalist economists who did contemplate that possibility.

Unlike the two other developmentalist strands, which already in the 1930s and 1940s were beginning to assemble in some institutions, the major point of reunion of non-nationalist developmentalists did not materialize until the early 1950s. In fact, although they already counted on a previous intellectual (and political-ideological) militancy, only in 1951 did these economists cluster around a project which, during the second term of Vargas's government, established the Joint Brazil-USA Commission and the BNDE.

In this project, which was later shared by nationalist developmentalists, several of the most outstanding names of the initial phase composed the central group of the non-nationalist developmentalist current. They were Horácio Lafer, Valentim Bouças, Ary Torres, Glycon de Paiva, Lucas Lopes, and — still in the generative stage of a later alignment — Roberto Campos, who was then a nationalist. At the time of primary growth of the developmentalist project, the enthusiasm with which those men supported the basic tenet in developmentalist ideas, i.e., the project for planned industrialization, accounted for their managing to keep in the background those divergencies that

separated them from most of their developmentalist counterparts in the public sector.

Little by little, however, their basic disagreements became apparent, and these essentially had to do with two points:

a) Though they generally raised no strong opposition to state investments, they fought against their proliferation, claiming that the state must not occupy a space that private initiative could fill with greater efficiency. As actual conflicts used to occur at the level of investments in large infrastructure and mining projects, for which national private capital did not have enough financial scope, non-nationalist developmentalists' view was equivalent to an option for foreign capital instead of state capital.

b) They were also characterized by the emphasis given to the control of inflation, and did not hesitate in supporting monetary stabilization measures.

The two foregoing aspects were basic points of contact between this current and that of neo-liberals, thus reducing the ideological gap between them — a gap that consisted of developmentalists' unequivocal alignment with the industrialization project and their equally unequivocal inclination toward economic planning.

"Non-nationalist" developmentalists did not actually create centers of economic thought, as neo-liberals had done at FGC, and nationalist developmentalists at the Economists' Club. Their institutional meeting occurred only in the Joint Brazil-USA Commission (1951-53) and, between the years 1952 and 1959, as part of the Board of Directors of BNDE. Nor did they bother to create channels to express their ideas, but rather opted for conveying them through periodicals of widely variable tendencies. The only publication with a somewhat better defined doctrinaire tendency to follow their line of thought was the journal Observador Econômico e Financeiro, whose owner was Valentim Bouças and which, incidentally, had wide penetration among economists and entrepreneurs in the decades of 1940 and 1950.

## ii Roberto Campos' thought

The most outstanding economist in this current was Roberto Campos. His importance in the Brazilian debate of the 1950s, as well as the representative character of his ideas in relation to the economists who followed an identical line of thought, compel us to give special attention to his work.

Roberto Campos is a career diplomat with a degree in Economics from Columbia University. Gudín reported having once heard from Nurkse that Campos was the most brilliant Economics student at that university in many years. A systematic reading of his texts leaves no room to doubt this assertion. As owner of a vast culture, a good theoretical background in economics, a typically cosmopolitan mind, and a unique verve for criticism, Campos was a sharp and engaging debater who was able to disconcert his brightest opponents.

In retrospect and in light of the historical process the country actually went through, Campos stands out in the decade of 1950 as an accurate thinker. To be sure, he was an economist of new vintage in a country that was going from an old agricultural and export-oriented structure into a structure of internationalized industrial economy. Campos made a bet on industrialization through capital internationalization and state support, and he won.

Among all of the most active Brazilian economists, he was the one whose developmentalist project came closest to the investment policy that was actually eventually implemented. This is easy to perceive by a combined reading of the writings he signed and of those that did not carry his name, even though they had been written by him, viz., the conceptual and analytical background for the Joint Brazil-USA Commission's Reports and the Target Plan. We must bear in mind that those were the texts that defined some developmental plans that, up to our days, correspond more closely to the economic policies enforced in Brazil and the growth process that was actually observed in this country. Reading those texts would seem to suggest that the basic features of the establishment of the Brazilian industrial structure in the 1950s went directly from Campos's mind into Juscelino Kubitschek's pronouncements and developmentalist policies.

In the Brazilian political setting of the period under study, Campos represented the "right wing" of the developmentalist position. He worked on the project for Brazilian industrialization and struggled for economic development planning. At the same time, he argued for the attraction of foreign capital even for mining and energy generation, and criticized the state investment solution in nearly every situation where he could contemplate a private solution.

However, from the examination of these political characteristics — which, along with his performance after 1964, serve to define him as a rightist in the Brazilian political scene — one should not draw prejudiced conclusions regarding the theoretical aspects of the economic thought expressed by Campos in the decade of 1950. We must point out at once that he was then far from being an "orthodox" economist, i.e., one whose thinking agreed with liberal or neo-liberal postulates. In the early 1950s, his championing of industrialization through state support and planning put him in direct theoretical confrontation with the essence of liberal orthodoxy, identifying him with the elite of the theoretical heterodoxy of underdevelopment, i.e., with authors like Prebisch, Nurkse, Singer, Lewis, and others. Moreover, even if one considers his pre-1964 analysis of the question which most contributed to establish his image as an orthodox economist, i.e., monetary and exchange rate problems, that image proves to be imperfect.<sup>2</sup>

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(2) May we remind the reader that we are focusing exclusively Campos's thought prior to 1964, i.e., we are disregarding the ideas expressed by him in his capacity as a Minister of the post-1964 military government, at which time, along with Minister Bulhões, he enforced some strongly recessive monetary policies. As we know, the indignation of Brazilian leftists toward Campos was greatly aroused in that period, not only because of the vast concessions made to foreign capital — which reinforced the uncomfortable "pro-imperialistic" epithet with which nationalists labelled and stigmatized him — but, first of all, because of the wage compression and recession that served as the basis for his anti-inflationary policies. Thanks to this performance there was a reinforcement of Campos's image as a monetarist economist, which until then had been inaccurate in several respects. For an already classical criticism of Campos's administration, see Fishlow, A., "Algumas reflexões sobre a política econômica brasileira após 1964", Estudos CEBRAP, São Paulo, Jan.-March 1974, pp. 5-65.



The largest part of Campos's intellectual work in the period under study consists of articles, essays, and conferences published, as a rule, by the newspaper Correio da Manhã and the magazine Digesto Econômico, and later compiled in book form.<sup>3</sup> In the text that follows we make a brief review of his position regarding the group of essential political economy issues on which the author expressed his views. In order to give an idea of the chronology of presentation of Campos's thoughts, it should help to clarify that one may distinguish three phases in his work during the period we are concerned with.

The first of them, written in its better part by inspiration of his assignments at the Joint Brazil-USA Commission and during the management of BNDE, in 1952 and 1953, is Campos's major conceptual phase — the one where he defined his stance in respect to the problems of Brazilian development. During this phase, he introduced views that generally characterized him as a nationalist, and the great emphasis in his texts lay upon the proposal to plan development. In mid-1953 he left BNDE as a consequence of personal conflicts with the Bank's superintendent, who enjoyed Vargas's entire confidence. Although the incident had no ideological connotations, it seems to have given rise both to a change in his views concerning state and foreign capital participation in the Brazilian industrialization process, and to an alteration in his selection of subjects to be emphasized in his writings and pronouncements.

In effect, as of 1955, back in the Board of Directors of BNDE, Campos already voiced criticisms to the Brazilian monetary and exchange rate policies, attacks against state intervention (which he felt to be exaggerated), and arguments favoring foreign capital attraction. Nevertheless, he did not relinquish his views in favor of industrialization planning. He merely made

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(3) The five books with collected articles and essays from that period are: Ensaio de história econômica e sociologia, Rio de Janeiro, APEC, 1969; Economia, planejamento e nacionalismo, Rio de Janeiro, APEC, 1963; A moeda, o governo e o tempo, Rio de Janeiro, APEC, 1964; A técnica e o riso, Rio de Janeiro, APEC, 1966; and Reflections on Latin American development, University of Texas Press, 1967.

very few comments in this respect, perhaps because, as he held a key office for his industrialization strategy — he was Superintendent of BNDE from 1956 to 1958 and presided over that agency in 1958-1959 — developmentalist arguments appeared redundant to him.

The third phase begins, so to speak, after his departure from the BNDE, an event that took place amidst the crisis connected with Brazil's breaking off relations with the IMF. Removed from key positions and probably distressed about the episode of his dismissal, Campos began to voice with greater radicalism his criticisms to official economic policies and to nationalist propositions coming from the Brazilian left wing; he used a hostile language that was attenuated only after his appointment as Brazilian Ambassador in Washington by João Goulart, in 1962. He then alternated between producing articles on Brazilian domestic problems and articles about the relations between the U.S.A. and Latin America, where he again showed his unique ability to negotiate loans for underdeveloped countries — an ability that had already been demonstrated in his passage through the Joint Brazil-USA Commission, centering around arguments cunningly articulated to disconcert the progressive wing of American technocracy that was linked to the Democratic Party.

#### ~~II. Roberto Campos's thought~~

It should help to introduce Campos's developmentalist thought by comparing him to the major Brazilian conservative economist thus far, Eugênio Gudin. The writings published by Campos in 1952/1953 allow us to distinguish him clearly from conservative views. In writing about economic development planning in underdeveloped countries ("Planejamento do desenvolvimento econômico de países subdesenvolvidos"<sup>4</sup>), in talking about Brazilian economic development,<sup>5</sup> or in commenting on the theory of economic development<sup>6</sup> and on

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(4) Campos, R., "Planejamento do desenvolvimento econômico de países subdesenvolvidos", D.E., Apr. 1952, pp. 11-22, and D.E., May 1952, pp. 21-38.

(5) Campos, R., "O desenvolvimento econômico do Brasil", D.E., Aug. 1952, pp. 27-34.

(6) Campos, R., "Observações sobre a teoria do desenvolvimento econômico", D.E., March 1953, pp. 62-77.

the Brazilian crisis,<sup>7</sup> Campos outlined an economic project for Brazil and disclosed an interpretative view of the country's economic phenomena, both of which were wide apart from Gudin's conservative orthodoxy.

Interestingly, except for a divergence relating to the interpretation of the economic crisis of 1953, there was no intellectual confrontation between these two authors. This is easily understandable if we start off from the second half of the 1950s, when history promoted a relative convergence of their distinct views toward a common advocacy of private initiative and a welcoming of foreign capital, as well as toward a criticism of official monetary policies, which both Gudin and Campos considered inflationary. This is less obvious, however, in the early 1950s, specially because the latter was openly favorable to heavy industrialization and admitted of a direct state participation in infrastructural investments and heavy industry as well, besides being decidedly in favor of economic planning.

The explanation for the absence of conflict — bearing in mind that, in 1952, Gudin opposed Prebisch precisely in regard to planning — lies perhaps in that Campos's arguments at that time centered around a defense of the Joint Commission's work. As we know, most of that work consisted of the preparation of programs for the areas of transportation and energy, which identified it both with agricultural and export objectives and with the goals of an industrialization project. Moreover, the Joint Commission was in those days the topmost expression of a policy of economic interaction with the United States, and alignment with that nation was the major political issue for Brazilian conservative economists at the zenith of the cold war.

However, the divergences were not negligible and concerned two basic sets of ideas. In the first place, there was a clear discrepancy in the interpretation of Brazilian underdevelopment and the ways to overcome it. As we have seen, Gudin adhered to the concept of full employment to support the

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(7) Campos, R., "A crise econômica brasileira", D.E., Nov. 1953, pp. 28-44.

application of conventional economic theory to the Brazilian case, repeatedly attacked the idea of planning, and believed that a strategy of industrialization would damage the allocative efficiency of the country's market economy. Campos, in contrast, viewed the industrialization process as a means to overcome underdevelopment, to the point of using even the argument of unemployment to warrant industrialization efforts.<sup>8</sup> Furthermore, he maintained that planning was an efficient instrument of economic development.

Second, Campos's developmentalist views led him to an interpretation of inflation and recommendations for anti-inflationary policies that differed somewhat from Gudin's position, regardless of both authors' anti-structuralist orientation and of their identical views on some important points.

Gudin's interpretation, as we have seen, was that Brazilian development is imbalanced and inefficient owing to misguided economic policies. Inflation was claimed to be an almost exclusive by-product of those mistakes and should be firmly curbed. The eventual recession ensuing from anti-inflationary policies would be fully offset by the benefits stemming from monetary stability. Campos's view was that there is a structurally inherent tendency to imbalances even in underdeveloped economies, which he felt to be highly vulnerable to inflationary and balance-of-payment pressures. True enough, precisely for that reason, he felt that Brazilian monetary authorities should carefully fight those imbalances, instead of persisting in inefficient monetary administrations that could easily transform a restrained inflationary process into an unchecked one — and in this respect, the distinction between his and Gudin's position is but a formal one. Unlike Gudin, however, and also unlike the IMF's orthodoxy, Campos recommended an attack against inflation through a combination of monetary and fiscal measures by means of which one might avoid losses in investments that were essential to a structural change in the economy.

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(8) Campos, R., "Observações sobre a teoria...", op. cit., p. 63. See quotation on page 152 of this section.

a) The defense of industrialization

When Viner visited Brazil in 1950, he said, during one of his conferences at the Getúlio Vargas Foundation, that industrialization is not synonymous with development and that agriculture is not synonymous with poverty, quoting New Zealand and Denmark as examples of countries that had built their development upon an essentially agricultural basis. He of course argued for development on the basis of the old international division of labor. This type of argumentation led Campos to begin his remarks on the theory of economic development ("Observações sobre a teoria do desenvolvimento econômico") by making a concession to the possibility of an agriculture-based development, only to accompany it immediately with a statement worth quoting in full:

"The popular likening of the concept of economic development to that of industrialization, however, deserves a closer scrutiny. Some ground must exist for this pertinacious and almost instinctive identification. The likening is rooted in the actual fact that, in the vast majority of cases, the process of economic development cannot be successfully carried out to its end without industrialization. That is what happens in countries with a high demographic growth rate, which need industrial expansion to absorb agriculture's surplus labor, whether it be chronic or eventually stemming from technological progress in agriculture. That is also the case of countries whose endowment of natural resources includes mineral products that are essential to heavy industry, or which rely on a reasonably large and integrated domestic market. Under these circumstances, industrialization is likely to be the fastest means of attaining economic development.

In the Brazilian case, to be specific, it seems clear that economic development must be associated to intensive industrialization, not only because of the high demographic growth rate (which will eventually create the need for a quicker absorption of labor displaced from agriculture), but also because of the high potentialities of a large domestic market and in view of a mineral resources structure that leads to industrialization and is attenuated only by energetic deficiencies which may be easily overcome."<sup>9</sup>

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(9) Campos, R., "Observações sobre a teoria...", op. cit., pp. 62-63.

Campos therefore argued for intensive industrialization. In the text partly quoted above, he provided no theoretical explanations concerned with academic demands, i.e., he did not discuss the problem of the limitations in complying to Ricardian principles to reach maximum efficiency in underdeveloped economies, perhaps because the discussion would be boring to his audience at the Navy War School, where the conference was delivered. But the fact is that he favored industrialization, pointing not only to two of the conditions required for that process — a large domestic market and an adequate structure of productive resources — but also to the argument of unemployment, which was often used to challenge economic liberalism and played a central role in Prebisch's and ECLA's argumentation.

b) The defense of planning

Campos's developmental program included industrialization planning. In the early fifties, he was paving the way to a professional trajectory that was to transform him, within a few years, into the chief executor of Brazilian economic development (at the BNDE, he was the author and chief administrator of the Target Plan), and he was also building up a sound argumentation in favor of planning. Unlike Gudin, he believed that public administration was necessarily inefficient, but one must try and get around the archaic Brazilian administrative machinery, which was incapable of performing developmental tasks, by creating planning and administration staffs which should devote themselves to the formulation and implementation of a policy of basic investments. As we know, Campos was most successful in putting this conception into practice both at the Joint Brazil-USA Commissions and at BNDE.

His basic ideas on planning were published in 1952, in an essay headed "Planejamento do desenvolvimento econômico dos países subdesenvolvidos". In that text, he took an opposite stance against the ideas presented by Hayek and von Mises in the famous controversy of the 1930s, and stated:

"In any event, it is unquestionable that the anti-planning group quickly becomes a minority within the harassed fraternity of economists. The theoretical objections to the irrationality of the price system and of the distribution of factors in planned economies have been largely defeated by Barone, Taylor and Lange's analysis".<sup>10</sup>

He next explained that, unlike advanced countries, where planning aims to maintain full employment, "it is obvious that, in underdeveloped countries, planning primarily aims to accelerate the pace of economic development, which would be too slow ... if left at the discretion of spontaneous initiative".<sup>11</sup> And he highlighted the "special characteristics of underdeveloped countries, which make economic planning and state intervention more pressing and important than in more highly developed countries",<sup>12</sup> viz., (a) the need to compensate for private initiative's weakness; (b) the need to concentrate resources (so as to overcome the problem of the absence of a capital market capable of rendering large investments feasible, and to transform into investments, via taxation, those resources which would be used in conspicuous consumption by the affluent strata of the population); (c) the need to make decisions about long-term investments, or to benefit from what Campos calls the government's "telescopic faculty", which contrasts with the immediatist views of private investors and consumers; and (d) the need to accelerate the pace of development. Regarding the latter aspect, it is worthwhile quoting Campos's text once again:

"It cannot be overemphasized that economic development is an essentially cumulative process, a kind of chain reaction. An investment

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(10) Campos, R., "Planejamento do desenvolvimento...", op. cit., p. 45.

(11) Idem, p. 16.

(12) Ibid (our italics). Campos is a typical example of an economist trained under the impact of the depression of the 1930s and the Keynesian revolution, and he uses the language of a modern Keynesian public administrator. His firmness and simplicity in referring to state intervention leave no margin for doubts in this respect. (Incidentally, he made a careful reading of Keynes's works, as attested by his articulate theoretical paper titled "Lord Keynes e a teoria da transformação de capitais", RBE, June 1950, pp. 8-23).

in heavy industry — for example, in the heavy steel industry — provokes parallel investments in chemical industries based upon coke tar, cement industries based on scum, mechanical industries, etc. In order for the benefits of the cumulative process to be fully utilized, however, a certain speed must be reached in development, and in particular, income growth must exceed the populational growth rate by wide enough a margin to hasten capital accumulation. Given the scarcity of domestic resources that characterizes underdeveloped countries, on the one hand, and the meager volume of the international capital migration, on the other, spontaneous economic development tends to be too slow in our days. Only through planning can one attain a level of discipline in the distribution of factors that may allow for the avoidance of a competitive duplication of facilities and a waste of resources; promote the intensification of 'key investments' that permit a faster capitalization rate; and finally, distribute promotional tasks between public and private sectors".<sup>13</sup>

Campos thus clearly provided a rationale for his inclination toward planning in underdeveloped countries. In the same text, he expressed his acceptance of Wallich and Singer's view that the theory of growth as applied to underdeveloped countries could not have a Schumpeterian character, as growth is not a spontaneously activated process in terms of supply; he additionally stated that the right formulation is that of the theory of "derived" or "planned" growth, which privileges consumption, as "there has been an increase in social concerns, reflected in socialist movements that have drawn much more attention to the problem of the welfare of the masses". And he also stated that, in this context, "the major investor is ever more likely to be the Government, there being a reduction in private capitalists' sphere of action".<sup>14</sup>

From a theoretical point of view, Campos was indeed what one might call an eclectic economist. It must be noted, however, that regardless of

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(13) Idem, pp. 18-19. In another text from the same period the author highlights the problem of the "demonstration effect" as a characteristic of underdevelopment that warrants planning measures. See "Observações sobre a teoria...", op. cit., pp. 68-69.

(14) Idem, p. 74.



his eventual theoretical references, the author had no major academic concerns.<sup>15</sup> In those days, he was arguing for the work of the Joint Commission and for the establishment and consolidation of BNDE, pressed between a Brazilian elite that still had not been won over to the ideas of planning and heavy industrialization, and international financial authorities who were reluctant to grant financing for infrastructural investment projects on the grounds that there was no adequate programming.<sup>16</sup>

c) Sectorial planning, growth points and bottlenecks

While fighting for planned industrialization, Campos also expressed his views regarding the planning modality he deemed convenient for the country and which, under his supervision, indeed became the basic feature of developmentalist policies in the decade of 1950. As is widely known, the policy of state-supported investments in those days meant the execution of programs prepared by the Joint Brazil-USA Commission for the sectors of transportation and energy, as well as the execution of the Target Plan, which covered energy, transportation, and heavy industry. The philosophy guiding

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(15) As a rule, he restricted himself to referring to some authors to support his own ideas. Prebisch featured among the most frequently quoted theorists. The argument of a deterioration in the terms of trade, for example, was accepted by Campos, though only to stress the difficulty of planning that lies in low import capacity as a result of an insufficient capital inflow and a deterioration in the terms of trade.

(16) The sharpest political argument used by Campos to warrant planning work was that the World Bank and the Eximbank insisted in receiving only projects that were duly justified by their articulation with an overall development program. In fact, in this sense, his bold speech addressed to Dean Acheson, the American Secretary of State, in the year 1952, in Rio de Janeiro, contains a most engaging argumentation. First of all, Campos showed that the Joint Commission's work complied fully with the requirements of those two agencies, thus implying that there was some unfairness in the eventual rejection of requests for financing. And in closing his speech, he dared state: "It is necessary for these banks to reason boldly and creatively and to show a willingness to examine the projects from a practical point of view, in terms of potential and not established markets. It is necessary, moreover, that they do not rate themselves as holders of perfectly efficient formulae in the field of management and organization, and that they do not press for the acceptance of a labor organization and company management methods which, albeit desirable per se, are not appropriate to our institutional background". (Campos, R., "O desenvolvimento econômico do Brasil", op.cit., pp.33-34).

those policies was advocated by Campos in 1952 under the designation of sectorial planning, and it corresponded to the idea of planning the development of certain economic sectors viewed as top priority ones owing to their intrinsic power of generating growth.

However, Campos raised no theoretical objections to the type of "integral planning" preconized by ECLA and pursued by both Furtado and the Brazilian left wing.<sup>17</sup> It is helpful to transcribe his comparison between the two modalities:

"The advantage of sectorial planning is its greater practicability. Integral or universal planning presupposes a previous solution of certain problems, such as that of coordinating public and private initiatives, gathering statistic information on national income and its component elements, collecting data on price evolution, etc., all of which have neither fast nor easy solutions. Sectorial planning has the additional advantage of circumscribing the area of governmental intervention to the minimum level required for economic development, which is an important consideration when the technical efficiency of public agencies is less than desirable. Generally speaking, however, the potential drawbacks in a merely sectorial planning warrant an effort on the part of underdeveloped countries toward reaching integral planning".<sup>18</sup>

Campos's objection to integral planning centered around an argument concerning its practicability and political meaning:

"In a vast and complex country such as ours, with numerous autonomic political subdivisions and an extremely wide range of economic evolu-

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- (17) Campos openly acknowledged his respect for ECLA's work on planning. See, for instance, "As quatro ilusões do desenvolvimento" (speech delivered at the ECLA Conference in La Paz, Bolivia, in 1957), in Campos, R., Ensaio de história econômica e sociologia, Rio de Janeiro, APEC, 1963, pp. 83-85). It is also common knowledge that, in preparing the Target Plan, he made ample use of an important work by Celso Furtado and Regino Botti, elaborated in 1954-55 at the Joint ECLA/BNDE Group, concerning "Programação na economia brasileira" (Planning in Brazilian economy). (See Grupo Misto CEPAL-BNDE, "O desenvolvimento econômico do Brasil", in Análise e projeções do desenvolvimento econômico, Rio de Janeiro, 1957).
- (18) Campos, R., "Planejamento do desenvolvimento...", op. cit., p. 25. It is interesting to note that the author refers the reader in search for "a detailed discussion of these topics" to Prebisch's "Theoretical and practical problems of economic development".

tion levels, the task of integral planning is simply alarming. The outcome of any exceedingly ambitious effort in planning would probably be our spending so much time in elaborating a plan that, by the time it were concluded, it would already be obsolete. Or else we should have to install a highly centralized Socialist Government with a violent frenzy of ruling, but this would be paying too high a price, in terms of human freedom, for the dubious benefit of a comprehensive economic scheme".<sup>19</sup>

Hence Campos's preference for sectorial planning — a conception based upon the idea of "growth points":

"The Joint Commission has confined itself to a more realistic planning modality which consists of identifying and selecting 'growth points' or 'germinal points' that are capable of eliciting an upsurge of parallel investments. These growth points — there can be no overstating it — are electric power, transportation, improvement of agricultural productivity, and expansion of some key industries".<sup>20</sup>

Nevertheless, Campos added that, in fact, what the Joint Commission proposed was simply to break through the "bottlenecks corresponding to sectorial imbalances created by the fast pace at which the economy became industrialized, i.e., changed from an exporting economy into a domestic market economy in open and feverish expansion".<sup>21</sup> Sectorial planning was therefore viewed as a way of transforming "bottlenecks" into "growth points".

An interesting observation is that, in practice, this type of planning is very similar to the strategy of imbalanced growth which Hirschman had presented ~~several~~ <sup>a few</sup> years <sup>later</sup> ~~earlier~~ in his book The strategy of economic development. Notwithstanding the fact that their eventual proximity stemmed from distinct theoretical objectives — Campos did not formulate a Hirschmanian strategy of planning imbalances as an instrument of growth —, both authors, in practice,

(19) Campos, R., "O desenvolvimento econômico...", op. cit., pp. 29-30.

(20) Idem, p. 30. Another greatly influential economist in terms of the conception of sectorial planning and the Target Plan was Octávio Dias Carneiro (cf. Rangel, I., Recursos ociosos na economia brasileira, Rio de Janeiro, Presidência da República, 1963, p. 42).

(21) Ibid.

aimed to spot key sectors with the highest potential of radiating stimuli to the rest of the economy. There is some sense, therefore, in the not uncommon application of the expression "Hirschmanian-like strategy" to define the Target Plan.

d) The interpretation of the growth process

In Campos's view of economic planning it is possible to identify two important analytic aspects which are central to his interpretation of the Brazilian economic growth process. The first of them becomes apparent when, in justifying planning by the need to accelerate the pace of economic development, Campos defines the latter as "a cumulative process, a kind of chain reaction". The very key category of his philosophy of "sectorial planning", i.e., the idea of "growth points", simultaneously carries the quality of a definitional category in a strategy of growth and the analytic quality of an interpretative category of a process of economic expansion. Unfortunately, however, Campos does not actually explore the analytical potential of his concept. It fell to Hirschman, as we know, to deepen this analytical line of thought and enrichen it, for example, with the concepts of "forward" and "backward" linkage.<sup>22</sup>

The second aspect, which is present in all of Campos's arguments in favor of investments in the economy's bottlenecks, consists of his interpretation of a tendency to imbalances that is inherent in the structure of underdeveloped economies undergoing a fast industrialization process. A brief review of this aspect is in order at this point, not only because of its importance in the author's thought, but also because it shapes his views of the inflationary and exchange rate problems of underdeveloped economies.

Campos believed in a tendency toward imbalances in the type of development that takes place in underdeveloped socio-economic structures. This

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(22) Hirschman, A., Estratégia do desenvolvimento econômico, Rio de Janeiro, Editora Fundo de Cultura.

belief can be perceived in several of his writings, but it is the object of a specific analysis in two of them.

In "A crise econômica brasileira", published in 1953, Campos interpreted the economic conjuncture of the time as a "growth crisis" or "structural crisis", and claimed that "if there is an economic crisis at this point, it cannot be attributed to a phenomenon of recession or stagnation; it is less an agony over marasmus than the anxiety over evolution. One must forcefully acknowledge, however, the existence of certain structural imbalances, which we will shortly approach in discussing the diagnosis of imbalance".<sup>23</sup> In this text, Campos paid special attention to the "structural inflationary element inherent in the process of industrialization". He accounted for the "intrinsic inflationary pressure" as being basically due to the impact of industrialization on an inelastic agricultural supply, as well as to alterations in consumption habits and the investment needs that accompany the process of industrialization and urbanization. He added that "a third germ of inflation is the lengthening of the productive period",<sup>24</sup> pointing also to the waste of resources corresponding to the so-called "real estate fascination".<sup>25</sup>

The analysis of inflationary pressures reappears in more elaborate form in a text presented in 1957 to the "Round Table of the International Economics Association", in Rio de Janeiro.<sup>26</sup> Campos started off from the idea that underdeveloped countries are particularly vulnerable to inflation if compared to those which went through the developmental process in the nineteenth century. Campos explained this view on the basis of three main reasons.

First, and reverting to a statement made years earlier, he claimed that in modern times development was not "Schumpeterian", but rather "derived", i.e., its motivation was to be found in the consumption expectations of the

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(23) Campos, R., "A crise econômica brasileira", op. cit., p. 31.

(24) Idem, p. 33.

(25) Ibid.

(26) Campos, R., "Inflation and balanced growth", in H. Ellis (ed.), Economic development for Latin America, London, McMillan, 1961, pp. 82-103.

masses, leading governments to encourage production by every possible means. Second, and bearing a relation to the first reason, there was the so-called "demonstration effect", contributing to reduce the potential of savings and aggravate the inflationary potential. The third distinctive factor in the growth of underdeveloped economies was that, in contrast with countries like the U.S.A. and Canada, whose development process was facilitated by an essentially food-producing agriculture based upon techniques and know-how that had been transplanted from Europe, underdeveloped countries are generally specialized in mineral products or raw-materials geared to exports, and their food sector is relatively inelastic, showing a low productivity. Therefore, they had not undergone an "agricultural revolution" that might be adequate to industrial transformation.

In the vulnerability that is peculiar to underdeveloped economies Campos identified some characteristics of the economic development process that "necessarily" generate "a certain amount of inflationary pressure". In his own words,

"In the first place, the developmental process entails structural changes as primary production factors are displaced to secondary and tertiary production. Given the imperfection of market factors, fast diversification and the increase in demand contrast with a relatively inelastic supply pattern regarding equipment, intermediary products and technical knowledge, which are required both for industrialization and for the modernization of agricultural practices. Specially during fast growth phases, the mobility of demand is likely to be greater than that of supply".<sup>27</sup>

As for the question of import capacity, Campos showed an inclination to accept Prebisch's theses. He went as far as to believe in a structural propensity to imbalances in the balance of payments of underdeveloped countries going through an industrialization process. In his analysis of exchange rate imbalances in 1953, he stated that "our problems with the balance of pay-

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(27) Campos, R., "Inflation and balanced...", op. cit., pp. 85-86.

ments in recent years are refractory as a result of the intensity of industrialization".<sup>28</sup> Later in the same text, he said that "the current crisis in foreign payments illustrates one of the crucial problems in advanced countries: economic development per se tends to generate a demand for imports in view of two things: first, because the employment of capital requires a large amount of industrial equipment; and second, because the rise in income levels tends to elicit a derived demand for imports".<sup>29</sup>

The verification of Campos's acknowledgement of structural inflationary pressures is only a necessary but insufficient step toward providing a rigorous portrayal of his views in regard to Brazilian inflation. As we will see in the forthcoming section, this acknowledgement did not lead him to consider monetary and exchange rate imbalances as unavoidable, but as capable of being corrected through the utilization of adequate monetary, fiscal and exchange rate policies.

What he did consider unavoidable was a certain amount of sectorial disequilibrium. In effect, he felt that "disproportions are essential dynamic elements in the process of economic development".<sup>30</sup> He stated, for instance, that "the large volume of investments, specially in railroad transportation, electric power and heavy industry itself, usually results in temporary imbalances and disproportions which are technically inevitable".<sup>31</sup> In the same text, his subsequent argument also indicates the author's position in respect to the "desirability" of imbalances, or rather the tolerance limits in relation to this phenomenon:

"It thus seems that the notion of 'balanced growth' should have a

(28) Campos, R., "A crise econômica...", op. cit., p. 38.

(29) Idem, p. 40.

(30) Campos, R., "Inflation and balanced...", op. cit., p. 88.

(31) Idem, pp. 88-89. In this respect, Campos refers us to L. Dominguez and H. Pilvin, "The process of balanced growth", Social Research, Winter 1954, where the authors claim that indivisibility and inelasticity in the supply of goods may cause unavoidable discrepancies between supply and demand in some markets.

qualified interpretation, in that strictu sensu only an economy with an infinitely elastic supply, distributed for each product and perfectly adjustable to any changes in the demand structure, could aspire to balanced growth. As this hypothesis is obviously impossible, the practical aim of advanced countries cannot be to avoid some temporary cases of excessive demand or excessive supply, but, on the contrary, to prevent disproportions from becoming cumulative and originating bottlenecks that may hinder the continuity of the growth process."<sup>32</sup>

If in the case of sectorial disproportions the author deemed it necessary to adopt a relatively flexible stance, avoiding bottlenecks alone, his position was more or less rigid in regard to monetary and exchange rate imbalances, or at any rate it became more rigid after 1954-1955 with the aggravation of imbalances.

In referring to the foreign disequilibrium of the early 1950s, Campos expressed his agreement to the situation of exchange rate overvaluation that had been attained with the policy of import permits and fixed exchange rates, which lasted from 1948 to 1953. He said that "this policy of exchange rate overvaluation has been fiercely criticized and even threatened by economic orthodoxy with the anathema reserved for major sins (...) It so happens, however, that this orthodox view is too rigid and does no justice to the subtleties of the phenomenon. (...) It was a policy that stimulated industrialization, thereby expanding the domestic market".<sup>33</sup> But in this text, written in 1953, Campos symptomatically indicated a date that served as a limit to his concession: "Personally, I believe that up to mid-1950 or early 1951 this sinful exchange rate policy has brought about more benefits than disadvantages. The watershed must lie somewhere between 1950 and 1951".<sup>34</sup>

In practice, the acknowledgement of the practicability of exchange rate imbalances at a given point in the past was, from the perspective of

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(32) Idem, p. 89 (free translation).

(33) Campos, R., "A crise econômica...", op. cit., pp. 38-39.

(34) Idem, p. 39.



the economic policies prevailing in 1953, only an unconventional way of drawing attention to the need to curb foreign account imbalances. And this is a job Campos devoted himself to with firm determination as of 1955.

The aforementioned slight concession as to the desirability of foreign imbalances was at no time reproduced with respect to monetary disequilibrium. Campos eventually acknowledged certain virtues in a low inflation, but did so only to add an introductory zest to the presentation of his belief about the impossibility of keeping inflation at low rates in underdeveloped countries — "a little inflation is like a little pregnancy", he used to say — and the negative effects of this phenomenon on economic development.

e) Campos's views on the questions of inflation and foreign disequilibrium

The acknowledgement of underdeveloped countries's vulnerability to inflation, as well as of developmentalism based on the key idea of planning investments to break through bottlenecks and create growth points, led Campos to make an intellectual effort in the decade of 1950 to adjust his belief in the need for monetary stability to his wish to make it feasible without hampering economic development. In his reflections aiming to conciliate the conflicting elements that appeared in his developmentalist equation, Campos elaborated on the point of view that stability and growth may be harmonized in countries suffering severe inflationary pressures. Perhaps for that reason, when the structuralist current began to spread its influence throughout the continent, Campos was ready to become the major Brazilian opponent to structuralist ideas. This, in turn, largely contributed to build up his image as a monetarist economist.

As regards the period under study and from a strictly theoretical point of view, that image is inaccurate. It is hard to write about Roberto Campos while restricting the analysis to the period prior to 1964, as in our case. His image, specially in the field of monetary policies, was indirectly linked to his term of office as Minister of Planning, between 1964 and 1967,

when in co-operation with Octávio Gouveia de Bulhões he implemented some policies that were considered orthodox by many standards. He was thus said to have stuck to a "demand-pull inflation" interpretation, which had been used in his anti-structuralist analyses of the 1950s, at a time when idle capacity and unemployment were clearly perceptible in the entire economy. Above anything else, his image is associated to the policy of wage compression, which he justified with the argument of "supply inelasticity". To allow for an examination of Campos's thinking prior to that period a point must be made clear from the very start: before 1964, Campos was not a monetarist economist according to the basic theoretical sense of the term. Even the references to his own and Lucas Lopes's negotiations with the IMF (in 1958 and 1959) as being subordinated to that agency's monetarist orthodoxy, and as being "anti-developmental" or "imperialistic" in nature are quite unfair. During that period, Campos was a mature negotiator who did disagree to the idea of breaking off relations with that agency, but who also disagreed with its monetarist-oriented recommendations. Campos is right in defending himself:

"In this controversy between monetarists and structuralists, symbolized respectively by the IMF and ECLA, I stand at equal distance from both poles, as my points of view are rather eclectic".<sup>35</sup>

The term monetarist is applicable to Campos in the pre-1964 period only in a very strict sense: his opposition to structuralism. The issue at stake here is the same as we have pointed out in analyzing Gudin's thought. According to structuralists, monetarists are all those who do not agree to the idea that in most underdeveloped countries growth leads necessarily to inflation, the causes of which can only be attacked in the long run by means of a transformation in the underdeveloped socio-economic structure; they are also those who, being unable to understand what lies at the root of the in-

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(35) Campos, R., "Development économique et inflation en égard en particulier à l'Amérique Latine", in OECD, Planification et programme de développement Études de Développement I, 1963, p. 157 (free translation).

flationary process, cannot see that traditional monetary policies, besides jeopardizing that transformation, are actually innocuous, in that inflationary pressures reappear whenever the economy begins to grow once again. Campos did not support this view. In this limited sense, therefore, he was a monetarist.

In order to characterize Campos's position with greater accuracy, it is helpful to explore three analogies that can fit between the sense of the term "monetarist" in Keynesian theoretical language and its meaning in structuralist language. In the first place, one may say that just as Keynesians apply the term monetarist to the economists of mature economies who preconize credit and public expense restrictions to deal with inflation in unemployment situations, thereby contributing to hinder short-term growth, Campos was a monetarist, by ECLA's standards, because in recommending those measures in underdeveloped economies, he was contributing to hinder their long-term development.

The second analogy is somewhat subtler. As we know, the difficulty in using the term "monetarist" in developed countries is that, on the one hand, there are "non-quantitativist" economists who make a false Keynesian diagnosis of inflation, attributing it to full employment in conditions that are typical of unemployment. In this case, though their orthodox recommendations do not actually become "monetarist", they are so designated for essentially political and ideological reasons. On the other hand, there are true monetarists or "quantitativists" for whom it is immaterial, in applying orthodox policies, whether or not the economy is in full employment. According to ECLA's rationale, Campos was said to be a special case of the former group. What he diagnosed was "full capacity", and never full employment, whereas according to ECLA economists, one might at best diagnose a "partial full capacity" in some key sectors, i.e., in the system's "bottlenecks". Campos's mistake, according to the structuralist rationale, was that his general diagnosis of "full capacity" or "supply inelasticity", which was condu-

cive to restrictive policies, <sup>hindered</sup> ~~led~~ well-equipped sectors to expand production without much difficulty. Viewed from another perspective, his mistake lay in his making an excessively aggregated analysis of the economy while disregarding sectorial specificities.

The third analogy is that both Keynesians and structuralists feel that monetarists are those liberal-oriented economists who diagnose inflation as resulting from mistakes in economic policies and who disregard actual conditions. This point deserves greater attention in that it refers us to the essence of Campos's anti-structuralist position.

A first aspect to draw our immediate attention in several of his writings on the question of monetary imbalances in Brazilian economy is that he starts his analyses by acknowledging the existence of structural factors that generate pressures toward a disequilibrium. The way he presents this idea, however, causes the importance of those pressures to be minimized, and the reference to them serves only as an argument to strengthen the defense of stabilization. For example, in his now classical text on structuralism and monetarism, Campos states:

"Balanced growth, strictu sensu, is almost virtually impossible.

But this does not mean that imbalances should become cumulative and self-feeding; this happens only when procedures are adopted that turn the self-correcting imbalances inherent in the growth process into induced and cumulative imbalances".<sup>36</sup>

Campos used this type of argumentation to pave the way for his critical line of opposition to structuralism. His basic view was that, in the Brazilian case, inflation was caused by an excessive demand made feasible by public budget deficits and an abnormal credit expansion, and elicited by a supply inadequacy that stemmed rather from the poor management of economic policies than from any structural rigidity.

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(36) Campos, R., "Duas opiniões sobre a inflação na América Latina", in Hirschman, A., Monetarismo versus Estruturalismo, Rio de Janeiro, Lídador, 1967, p. 86.

This is how he got closer to a liberal view, i.e., the idea that the basic problems of every economy are the outcome of mistakes made in governmental intervention. As we have seen, Campos did not adhere to liberalism. Even so, in his diagnosis of inflation as resulting from the inefficiency of governmental policies or from specific forms of governmental intervention in market economy, which would have artificially expanded the demand and restricted supply, Campos began to use a language that pleased neo-liberal economists.

The basic causes of inflation were not, as structuralists would have it, the rigidity in agricultural supply or other bottlenecks in basic sectors and the structural incapacity to import. Rather, they were claimed to be mistakes in economic policies, often corresponding to an incorrect choice of anti-inflationary measures that violate market rules, in that they distort the price system and resource allocation.

According to this criticism, inflationary pressures stemming from an inadequate agricultural supply would result rather from a pseudo-stabilizing policy of subsidizing consumers and/or freezing prices, which artificially stimulated consumption and discouraged production, than from a hypothetical structural rigidity in agricultural supply — a problem that was claimed to be surmountable, in principle, through appropriate stimuli. With respect to the inadequacy of basic services like transportation, energy and communications, Campos attributed that situation to the policy of curtailing raises in service charges, which, although enforced with the objective of avoiding short-term feedbacks to inflation, actually proved to reinforce it, in that it de-capitalized public enterprises and drove private capital away, thus preventing the obtention of the necessary investments.

As for the low import capacity, Campos acknowledged the problem of an inelasticity in international demand and a tendency toward a deterioration in the terms of trade. He claimed, however, that its main cause was the discouragement of the production of exportable goods which resulted from an overvaluation of the exchange rate (for fear of inflation and of a dete-

rioration in the terms of trade) and from heavy taxation. Moreover, he argued that inflation itself drove away the foreign capital that might help overcome the problem. In short, therefore, he felt that it was inflation — along with misguided economic policies, of course — that created obstacles to surmounting foreign account bottlenecks, and not the other way around, as structuralists would have it.

These remarks do not invalidate what we had formerly stated, i.e., they do not contradict the idea that Campos was concerned with harmonizing growth and stabilization, or rather industrial development and monetary stability. It was particularly for this aspect that he distinguished himself from the Brazilian neo-liberal current, and it was also the reason why he could call himself an "eclectic" economist who stood halfway between ECLA and the IMF.

Campos emphasized, on the one hand, the traditional arguments about the evils of inflation, centering around the idea that distortions in the price system subvert resource allocations, reduce savings, and generate a climate of social tension that does not enhance development. And he concluded with the proposition that stabilization policies must be introduced. On the other hand, however, he stressed the need to combine monetary and fiscal policies. Campos advocated the need to preserve the continuity of top priority investments and seek, through increases in taxation and a stricter control over tax evasion, to strengthen the state's non-inflationary financing capacity. His recommendations to curtail public expenditure were primarily directed to consumption expenses and not investments. This characteristic is found in every one of the texts wherein he deals with this question, ever since the time of his work at the Joint Commission up to the end of the period under study. At least in terms of a general argumentation, his objective of breaking through bottlenecks and creating growth points was never relinquished, not even on behalf of stabilization.

Campos was therefore entitled to criticize the IMF as he did in an ar-

ticle dated 1963, where he also charged that agency with maintaining a "formalistic position" of evading real problems on the grounds that its statutory scope restricted it to dealing only with problems in the balance of payments. The same article further includes the following comment:

"Until the recent past, at any rate, the Fund's programs conveyed the primary concern of curtailing any excess in the overall demand, but showed little interest in distinguishing consumption expenses from investment expenses, or in identifying those sectors where bottlenecks are produced and in which investments should be maintained or even accelerated, if necessary, through an increase in foreign financing".<sup>37</sup>

The foregoing criticism was entirely in keeping with all of Campos's earlier writings. The consistency was less pronounced, however, in regard to another piece of criticism following the one quoted above in that same article. In this instance, Campos claimed that the IMF was wrong in recommending simultaneous policies for both domestic and foreign equilibrium, and argued that control over foreign account imbalances must be avoided in the early stages of any stabilization program so as not to detract from the objective of fighting inflation.

In making this statement, Campos omitted his views as expressed in a confidential memorandum addressed in 1955 to Minister Whitaker, then newly installed in substitution to Eugênio Gudin, who had refused to risk a simultaneous attack on the two fronts. Here are Campos's words:

"So far, the Government's hesitation in devaluating the cruzeiro was largely due to the fear of this measure's inflationary consequences. It would be unquestionably better to devalue the currency only after curbing inflation, so as to make sure that the stimulus to export would not be promptly offset by the domestic rise in costs and that the tendency to import would not be exacerbated. Unfortunately, however, the exchange rate conjuncture resulting from a stagnation in

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(37) Campos, R., "Development économique...", op. cit., p. 154.

exports is so serious that there can be no more waiting. The exchange rate problem must be independently solved while seeking to curb inflation, at the same time (and not in advance, as would be desirable), by means of a coordinate policy of tax and credit restrictions".<sup>38</sup>

One final aspect worth mentioning in Campos's thought is his assessment of the recessive effects of credit contraction policies. What Brazilians remember nowadays is Campos's inflexibility in regard to the anti-inflationary policies implemented during his term as Minister of State in the period 1964-1967. Prior to 1964, however, he gave some indication of considering those policies problematic and worthy of special attention. In the aforementioned text dated 1963, he acknowledged, for instance, that during inflationary situations entrepreneurs have to cope with "working capital crises" because they build up excessive stocks as a way of defending themselves against monetary devaluations. Campos was explicitly referring only to the reductions in production and to rises in unemployment, as well as to the political crises resulting thereof, but it is quite obvious that he was also implicitly drawing attention to the unadvisability of adopting rigid credit restriction policies. Also, in a conference where he defended the Monetary Stabilization Pro-

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(38) Campos, R., memorandum on the Exchange Rate Reform addressed to the Finance Minister, in Whitaker, J.M., *O milagre de minha vida*, São Paulo, Editora Hucitec, 1972, pp. 286-294. This document contains a proposal for the adoption of a flexible exchange rate system (combined with the new system of exchange rate surtaxes, which should be maintained until the implementation of the new tariff system then under preparation). This proposal reappears in a lecture delivered at the National Trade Confederation in the subsequent year. At that time, Campos actually advanced the hypothesis of a theoretical possibility that exchange rate devaluations might not, after all, have a direct effect on domestic prices. His argumentation was that the import restriction policy then in force, not having any control over domestic prices, allowed for monopolistic profits that were accrued thanks to the fact that those prices were raised up to the very limit of consumers' demand. Hence the idea that "an effective rise in exchange rate costs means to importers, in many cases, merely a reduction in their profit margins, and not a raise in the real costs for consumers" (Campos, R., "Reforma cambial", D.E., July-Aug. 1956, p. 84). It is also worthwhile noting that, still in the same text, Campos challenged the idea that the terms of trade would necessarily suffer a deterioration as a consequence of exchange rate devaluations (idem, pp. 87-88). At no other time did he get as close to IMF's orthodoxy as in this article.



gram, which he had elaborated in co-operation with Minister Lucas Lopes, he argued for a gradual attack against inflation. In reply to the contention that the monetary restrictions recommended in the Program would have a negative effect on production, Campos stated that his credit policy was "extremely modest" and that its aim was not to hold credit back, "let alone curtail it". His purpose was to limit its expansion rate "to a reasonable volume that may allow the economy to curb inflation gradually, reverting to monetary stability after a while".<sup>39</sup>

To this and most other important discussions about the inflationary question in Brazil and Latin America, as we know, there flowed a number of political and ideological views that challenged one another in the ideological field of intellectual debate. Somehow or other, the topic of inflation entailed discussions about the economic development project, the problem of foreign capital and state capital, the question of income distribution among the various social classes and economic sectors, and even the land reform. Precisely for that reason, in reviewing Campos's position with respect to the inflationary question in the present section, we have been compelled to point out several elements that earned him the opposition of Brazilian leftists. In contrast, in the sections that follow we will highlight the major political elements of his thought which may be identified independently from his discussion of inflation.

f) The views about foreign capital and state enterprises

The defense of monetary stability is likely to have been Campos's major intellectual concern from 1955 onwards. As we have noted, this topic involved a number of political aspects that brought him closer to conservative groups in Brazilian political life. The second important area of politically controversial concerns that earned Campos a considerable hostility on the

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(39) Campos, R., "Programa de estabilização monetária", D.E., May-June 1959, p. 22.

part of leftists was the question of foreign capital, along with the related issue of the state's participation as an entrepreneur in directly productive activities.

The view Campos began to espouse as of the mid-fifties was that the insufficiency of capital, know-how and import capacity led the nation's interests to include a policy of attracting foreign capital. State participation in productive enterprises should be tolerated only in those indispensable programs in which, for the time being, there was no national or foreign private interest in investing. Even national private capital should avoid certain investment areas, as per his own words:

"If there is a possibility of establishing a division of labor between national and foreign capital with a view to accelerating the country's normal pace of capitalization, the rational attitude would seem to be to try and direct foreign capital, which generally flows in from countries with a high capital density, to those investment areas that (a) demand huge amounts of capital per unit produced; (b) demand investments with long maturity deadlines; (c) involve high risks, as in the case of oil drilling, or have a relatively low direct profitability, as in the case of energy and transportation.

In this respect, our foreign investment policies may be classed as a masterpiece in irrationality".<sup>40</sup>

Campos's arguments in this respect spread out over a large number of articles and deal chiefly with three aspects of the problem: they discuss foreign capital participation in mining activities, its participation in energy and transportation sectors, and finally, they discuss the more generic question of nationalistic arguments pertaining to profit remittances.

Regarding the first of the above aspects, Campos assimilated the ideas of a fellow professional — geologist and economist Glycon de Paiva — who was famous for his insistence in repeating that Brazilian mineral resources are insufficient and that nationalism contributes only to reinforce the weak-

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(40) Campos, R., "Três falácias do momento brasileiro", in Ensaio de história econômica..., op. cit., p. 133 (the text is dated July 1955).

ness of that sector's productive capacity. The basis for this argument was the idea that the country produced only fifty out of the three-hundred minerals that are essential to modern industrial economies, often on an extremely small scale. Campos said that mineral insufficiency, which is particularly serious in the case of energetic resources, as well as the shortage of capital and know-how, were reinforced by a negative psychological attitude corresponding to a "temperamental nationalism" or a "pseudo-nationalism". He argued, for example, that the fact that the country was "a greedy consumer of alien subsoil (...) must be pondered over by our nationalists, given our dangerous dependence upon foreign countries".<sup>41</sup> Alternatively, he stated that "nationalists are something we all ought to be. The point is whether we will be pragmatic or simply temperamental nationalists, whether we shall measure results and not intentions; and whether we will be able not to reject foreign economic efforts unless we are prepared to replace them".<sup>42</sup>

In the specific case of oil, Campos did not actually attack Petrobrás's existence. He carefully sought to praise its creation, but recommended the end of state monopoly and an association with foreign capital in different enterprises.<sup>43</sup>

Regarding the energy and transportation sectors, the low yield of the undertakings should be enough, in Campos's view, for the government to leave the supply of external economies to the initiative of foreign capital, for which purpose a change in the policy prevailing for public service charges would be in order. From a truly nationalist point of view, the policies in

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(41) Campos, R., "Considerações sobre a vocação mineira do Brasil", in Economia, planejamento e nacionalismo, Rio de Janeiro, APEC, 1963, p. 190.

(42) Idem, p. 195.

(43) One of the hottest disputes in which Campos took part concerned the episode of the Roboré Agreement, which granted Brazilian private companies the right to explore Bolivia's oil basin. As a protagonist in that episode, Campos had the opportunity to reaffirm with material detail his argumentation in favor of foreign capital participation in oil enterprises. See "A questão do petróleo boliviano", in Economia, planejamento e nacionalismo, op. cit., pp. 217-244.

force were claimed to be altogether irrational:

"Therefore, there is a large amount of irrationality in our attitude toward this problem. One of its consequences is that the surviving foreign capital, driven away from transportation, discouraged in the field of energy, and prevented from having access to oil and mineral exploration, is directed to distributional activities and to the manufacturing industry. It fails to crack the hard nuts of the economy and competes with Brazilians for its cream, a fact that is aggravated by its far better position to compete with national capital. In short, Brazilian private capital having an insufficient density to invest in infrastructural sectors, the Government becomes responsible for supplying external economies. As governmental action is both qualitatively and quantitatively inadequate, bottlenecks are created which make it difficult for private capital to be invested; at the same time, there is a lowering in the productivity of national private capital, which in itself has less resistance and density than foreign capital.

Such is the contribution — a negative one, as I see it — of temperamental nationalism to industrialization in Brazil..."<sup>44</sup>

In consonance with the foregoing stance, Campos was also a vehement champion of the policy of attracting foreign capital, in which a crucial role is played by the profit remittance issue. This topic, as we know, was the object of a heated political debate in Brazil. The leftists' view was that foreign capital was some sort of parasite that penetrated the country to drain the surplus value of Brazilian labor and send back to its country of origin a much higher capital than the amount locally invested. They therefore proposed a legislation to impose rigorous restrictions upon remittances.

Campos's arguments in opposition to the nationalist view appear in several of his writings. He minimized the relevance of the idea of "bleeding" and gathered data showing that profit remittances corresponded to only a limited portion of the country's liabilities in the balance of payments and to a minute fraction of the Gross Domestic Product. His major point, however,

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(44) Campos, R., "Três falácias...", op. cit., p. 134.

was a conceptual one. Campos claimed that "profits and capital inflow are merely two isolated items in the panorama of the balance of payments, and they grow still less important if viewed against the wider background of the repercussions on national income".<sup>45</sup> He substantiated this idea saying that the argument about bleeding is theoretically incorrect, as it does not take several effects into account. It does not consider the positive effect on the balance of payments implicit in export revenues attributable to foreign activities, or the liberation of foreign exchange credits by the added value of import substitution products,<sup>46</sup> nor does it take into account the overall effect of a rise in the net domestic product thanks to the increase in the country's productive capacity and to technological diffusion. Also, it does not even consider the resulting increase in domestic savings and investment capacity. Campos elaborated an argumentation centering around the idea that for legislative purposes concerning profit remittances, it would be unwise to handle capital inflow any differently from reinvestments.

All of this argumentation was and still is highly controversial. It is not our concern here to go into a discussion of its merits, as we cannot set out to make a critical examination of the correspondence between ideas and actual processes within the scope of this work. This would require, for example, some research into inflation and the balance of payments, the efficiency of state enterprises, or (still in relation to the topic at hand) the behavior of multinational corporations within the country, as well as into the effects of their operation on the productive structure and the economy's income distribution.

In his outstanding participation in the explosive ideological debate about foreign capital Campos often repeated that true nationalism must in-

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(45) Campos, R., "Controle da remessa de lucros de empresas estrangeiras", in Economia, planejamento e..., op. cit., p. 272.

(46) Idem, pp. 273-274. In this respect, Campos further remarks that no consideration is given to the value of imports determined by the financing of foreign companies.

clude the attraction of foreign capital as that is the fastest way to develop the nation. Given the procedures adopted in the present work, it is not for us to discuss the merits of his arguments. To do him justice, however, we must remember that in his own form of "nationalism" Campos had a shrewd and coherent performance in the hard diplomatic task of negotiating foreign loans to Brazil. In this field he adopted some bold attitudes toward international banks, a fact that detracted nothing from the respect he enjoyed within the international financial community. That was precisely the reason why João Goulart's own laboristic government nominated Campos ambassador in Washington in 1962.

g) Other basic features

In his discussions about foreign capital and inflation, as well as in several other articles, Campos often voiced his opposition to direct state intervention in the economy as an entrepreneur. He did not reject each and every state undertaking, but fought against what he called the fallacy of "interventionist socialism". He said, for example, that the decisions concerning state investments are nearly always surrounded by an undue politization and that state enterprises are generally inefficient thanks to their insensitivity regarding the local cost of services.<sup>47</sup> Campos made some concessions to the idea of the need for the state to take regulatory or even administrative control of certain undertakings that are monopolistic in nature, as in the case of public services, but he drew attention to the advisability of exercising this control without full ownership, i.e., through an association with private capital. In his opinion, the "obsession of state-controlled investments" stems from socialists' "naïveté", as they forget that "the most efficient motive force of economic efforts (...) is monetary stimulus and, either directly or indirectly, the power deriving thereof".<sup>48</sup>

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(47) Campos, R., "Três falácias...", op. cit., pp. 133-139.

(48) Idem, p. 136. Campos adds that "in their corrective interventions, those who adhere to socialism must not lose sight of this principle".

"Socialists' naïveté", according to Campos, also leads to a belief in a "patronizing state". The basic socialist premise was said to be the "conception of social and economic progress rather as a question of distributive justice than as a matter of efficiency".<sup>49</sup> For Campos, "the great drawback in patronizing socialism has always been its closer concentration on the appropriation of the results than on the problem of the stimuli required to elicit a productive effort".<sup>50</sup> In short, he rejected what he felt to be a premature income redistribution or a sharing of poverty, and not a generation of wealth through larger savings and investments.

As for the crucial question in the debate about income distribution, i.e., the problem of labor remuneration, Campos did not diverge in essence from what appeared to be an almost unanimous view among economists from widely distinct currents: he went for the principle of raising wages in accordance with the sum of cost-of-living increases with productivity. But this was a principle he did not abide by during his term as Minister of Planning in 1964-1967. On the other hand, he showed great concern with "premature distribution", reminding us of the attitudes of economists who hold on to that principle in case there is any threat that wages will exceed that sum, but forget to maintain it in the opposite situation.

With respect to the major social topic of the early 1960s, i.e., the land reform, what we come across is Campos's omission during the period prior to 1964. Save for the possibility that some text may have escaped us — we did not examine the newspaper articles that were reprinted in books or magazines —, the author remained silent on this issue. One may barely gather a few elements about his stance from his writings that analyze inflation, where he eventually ponders over the problem of agricultural supply rigidity. In one such text, for instance, he minimized the importance of the form of land distribution in accounting for that rigidity, which, as we have seen, he felt

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(49) "Três falácias...", op. cit., p. 135.

(50) Idem, p. 136.

to result from the lack of a revolution in tropical agricultural techniques, prior to industrialization, resembling the one which happened in cold countries like Canada or Australia, which were able to import cultivation techniques from Europe. In several other writings, Campos claimed that the inflationary pressures stemming from food prices are largely derived from mistakes in the policy of curtailing prices and subsidies to consumption, which depresses supply and increases demand. Nevertheless, these elements do not allow us to reach any conclusion regarding the author's position as to the fairness of leftists' major political revindication of the early 1960s.

As for the question of regional inequalities, Campos supported the idea that, for humanitarian reasons — which were alien, of course, to economic rationality —, the development of poorer regions could be subsidized, so as to make up for the drain imposed upon their financial and human resources by other regions.<sup>51</sup> We must note that in his capacity of President of the BNDE in 1958, Campos invited Celso Furtado to compose the Bank's Board of Directors and joined the latter in his intention of promoting northeastern development prior even to the time when Furtado was invited by Kubitschek to direct the "Projeto Nordeste" (Northeast Project).

We now come to the end of our review of Campos's thought. To those who no sooner started their reading than they realized the consonance between his views in the early 1950s and typically nationalist theoretical positions, and who were later surprised to see his emphasis on monetary stabilization and the attraction of foreign capital from the mid-fifties onwards, we would again observe that Campos was not exactly inconsistent in terms of his original views. The change in the political nature of his texts was in keeping with the very transformation of Brazilian economic and political life, as well as with the evolution of his own personal performance as one of the

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(51) For an assessment of Campos's views in this respect, see "A crise econômica...", op. cit., pp. 42-44.



characters in that transformation process. This will be made clear, we hope, in Part II of the present work, where we will attempt to establish a connection between our history of ideas and actual history.

### 3.4. The Public Sector: Nationalist Developmentalism

#### i. Introduction

The economic and political transformations following the crisis of the 1930s in Brazil introduced an abrupt change into the panorama of Brazilian institutions. Power centralization as commanded by Vargas generated a set of planning agencies like the Public Sector's Administrative Office (DASP), the Federal Foreign Trade Council (CFCE), the National Petroleum Council (CNP), the National Water and Power Council (CNAE), and several others. In those agencies, concerned as they were with the solutions for national problems, there naturally emerged, by virtue of their very assignments, some staffs of civil and military officials interested in the problem of Brazilian industrial development. Men like Barbosa Carneiro, Horta Barbosa, Macedo Soares, Anápio Gomes, and Aldo Franco formed the embryo of the nationalist developmentalist current, which in the decade of 1950, along with neo-liberals, was to become the most intellectually active strand of thought in the country. In those early years, some of the nationalist developmentalists who were to become outstanding characters in the scene of the 1950s were doing their training with the pioneers. This was true, for instance, of Rômulo de Almeida, Jesus Soares Pereira, Américo Barbosa de Oliveira, and Tomás P. Accioly Borges.

Nationalist developmentalists, just like developmentalists in general, struggled for the establishment of a modern industrial capitalism in the country. Their major distinctive feature was their clear inclination toward an expansion of state intervention in the economy through pro-industrialization policies that could be as largely integrated as possible into a comprehensive planning system, including state investments in basic sectors. They were a set of technical officials from governmental agencies who based their

professional performance on the ideology of planned industrialization as a historical solution for the underdevelopment found in Brazilian economy and society. They believed that capital accumulation in strategic sectors could not wait for foreign capital's initiative and discretion, but required control and an internal command by national capitalist agents — or rather, by state agents, as it was unanimously agreed that the weakness of the national entrepreneurial class made private solutions unfeasible. They were sceptical as to the possibilities of foreign capital's contribution to lay the foundations of the industrial structure waiting to be erected. In particular, with reference to those sectors which had been historically dominated by large foreign capitals, such as transportation and electric power supply, or else historically coveted by them, as in the case of oil and mining in general, the ideology of industrialization assumed a strongly nationalist — and interventionist — connotation. The same applied to basic industrial sectors, particularly large chemical industries and steelworks. For example, Percival Farkuhar's systematic boycottage of Brazilian aspirations of installing a steel industry in the country, as well as U.S.Steel's refusal to Vargas's invitation that they invest in Brazil, were part of nationalist memories regarding the possibility of relying on foreign capital to achieve industrialization. The slowness in the expansion of energy and transportation services, which liberals attributed to the freeze of public service charges, but which nationalists viewed as proof of the need for state intervention and planning, added new arguments to the conception that a strategy of state investments in those sectors was a sine qua non condition for a successful industrialization process.

In other industrial sectors, however, foreign capital was welcomed by nationalist developmentalists. This point is not always clearly understood by those who study Brazilian industrialization. It explains, for instance, why Commander Lucio Meira, a nationalist developmentalist, was the great articulator of the Target Plan in terms of the automobile industry, having

brought some large multinational corporations into the country. Nationalist restrictions in such cases concerned the need for controls, specially as concerned profit remittances, which they viewed as a serious threat to the equilibrium of the balance of payments and therefore, to the continuity of industrialization.

In short, nationalist developmentalists' concern was to assure the continuation of the industrialization process. They thus felt enthusiastic about state investments in sectors they deemed to be strategic, and foreign investments in those sectors whose implementation could follow a private path without jeopardizing the process as a whole.

Notwithstanding this, they felt that even private investments should obey a sequence of economic planning. The automobile industry, for example, was installed under the guidance of the Target Plan and followed a programming style that was welcomed by nationalist developmentalists as a progress in terms of orientation and control in Brazilian economy. According to them, however, the Target Plan was still insufficient in terms of programming: it lacked the comprehensiveness formerly contemplated by Roberto Simonsen and later preconized by Américo Barbosa de Oliveira, Rômulo de Almeida, Octávio Dias Carneiro, and the other nationalist developmentalists. It fell to Celso Furtado to introduce the country to ECLA's programming technique, which was a comprehensive planning model much to the taste of his fellow nationalist developmentalists. We shall revert to this subject later on.

Nationalist developmentalism, as we have noted, had its origins in the period 1930-1945. It survived the liberalism of Dutra's government, in the early post-war years, through some centers of developmentalist resistance that partially offset the loss of importance or the extinction of agencies formerly created by Vargas. A case in point was CEXIM, at the Bank of Brazil, where there remained Aldo Franco and Anápio Gomes, and of FGV, where up to 1952 the journal Conjuntura Econômica was edited by Américo Barbosa de Oliveira, Accioly Borges and Richard Lewinsohn. Such was also the case of CNI's

Economic Department, created by Roberto Simonsen in 1946 and entrusted to Rômulo de Almeida. In the journal Estudos Econômicos, published by that Department as of 1950, one may discern in the first few years an editorial line that was an attempt to combine nationalist developmentalist ideas with the interests of CNI's industrial entrepreneurs. That was the department where Almeida and other nationalists, such as Ewaldo Correia Lima and Heitor Lima Rocha, awaited to take over the leadership of the new public institutions established in the decade of 1950.

In 1951, Almeida set up Vargas's Economic Advisory Board, gathering a staff composed of Jesus Soares Pereira, Ignácio Rangel, Otholmy Strauch, and others. In other advisory offices of the Presidency of the Republic there were also Cleantho de Paiva Leite and Lúcio Meira.

Some years later, several of the foregoing names composed the board of directors and technical elite of the country's major developmentalist public agency: BNDE. During the Kubitschek government, Paiva Leite and Correia Lima were members of the Bank's board of directors. ECLA-oriented Celso Furtado, who had worked for the Bank in 1954 and 1955 at the Joint ECLA/BNDE Group, also participated in the board of directors to fill a special temporary office.

The great encounter of nationalist developmentalists took place in the mid-fifties, when Furtado and Barbosa de Oliveira founded the Economists' Club. This agency assembled some dozens of nationalist officials from the Federal Government and a few private sector developmentalists. It imprinted its distinctive mark upon the journal Revista Econômica Brasileira, which was issued between 1955 and the early 1960s. This journal was the major broadcaster of ECLA's ideas in Brazil during that period.

A second important agency to spread nationalist developmentalist ideas was the magazine Cadernos do Nosso Tempo, published by the Brazilian Institute of Economics, Sociology and Politics (IBESP) from 1953 to 1956. IBESP and its successor, ISEB (Institute for Advanced Brazilian Studies), were

paramount institutions in the formulation and diffusion of nationalist ideology between 1953 and 1964. They assembled a group of eminent sociologists, philosophers and historians like Hêlio Jaguaribe, Guerreiro Ramos, Roland Corbisier, Vieira Pinto, Cândido Mendes, and Nelson Werneck Sodrê. In terms of a reflection about Brazilian economy, however, they were not as influential as the Economists' Club, but they made room for the diffusion of ideas like those of structuralists Ewaldo Correia Lima and Heitor Lima Rocha. The intellectual militancy within that agency, as far as economists were concerned, was that of Ignácio Rangel's, an independent thinker and active member of the early IBESP group — the "Itatiaia Group" — which held periodic meetings in 1952 and founded IBESP in the following year. Incidentally, we must note that socialist historian Nelson Werneck Sodrê, who had devoted himself since the 1940s to analyzing the developing Brazilian industrial economy, made his presence felt at ISEB rather for his ideological militancy in asserting nationalism than for his dedication in carrying out economic analyses.

We have already referred to the major distinctive characteristics of the nationalist developmentalist current, i.e., its advocacy of an in-depth state intervention in the economy by means of economic policies guided by a detailed economic planning and reinforced by state investments in "strategic" sectors. Two other distinctive traits can also be found in comparing this and other developmentalist currents.

In the first place, its economists systematically favored a subordination of monetary policies to economic development policies. In this respect, they agreed with private sector developmentalists, but diverged from them in regard to the interpretation of the inflationary process and the way to control it: they introduced and spread ECLA's structuralism in Brazil, and save for some rare exceptions, they disregarded short-term measures for inflationary control; for private sector developmentalists, as we have seen, the latter should include wage and taxation reductions. The nationalist developmentalist who devoted greater attention to the analysis of the inflation-

any question was Celso Furtado. As we will see in the following sections, the discussion of this question emerged in his writings as a natural development of a structuralist argumentation.

The other feature distinguishing nationalists from other developmentalist currents was their political inclination toward socially-oriented economic measures. The vast majority of nationalist economists were particularly concerned with the Brazilian population's conditions of unemployment, poverty, and cultural backwardness, as well as with the archaism of Brazilian institutions, whether in the countryside or within state administration.

However, one must not overemphasize the importance of this aspect of nationalist thought. It is a less prominent feature than its views concerning monetary questions and is by no means comparable to its emphasis on the defense of state intervention in the economy. During the decades of 1940 and 1950, the chief message conveyed by nationalist texts was virtually limited to pointing to industrialization as a transformative process that could in itself undermine the society's conservative foundations and make it possible to overcome poverty. Contributing to this were there not only the hope and optimism of the 1950s, but also the fact that the progressive action assigned to the government officials who formed the nationalist developmentalist current, in terms of their professional activities, was fully within the field of creating possibilities for the "development of productive forces".

In the area of production relations (between capital and labor), with the exception of Thomas Pompeu Accioly Borges's dedication to examining the problems of the land reform, what we do observe, at least up to the late fifties, is a relative omission which, among other things, avoided any discussion about wage readjustments. In this respect, nationalists maintained only a prudent and vague stance in favor of the principle of raising real wages proportionally to increases in productivity. Only one specific field of social concerns received relatively comprehensive reformistic proposals, viz., that of regional inequalities. As we know, this question was analyzed by

Vargas's Economic Advisory Board in 1953, at the time when Rômulo de Almeida created the Northeastern Bank, and it was reviewed and reinforced by Celso Furtado's initiative in the period of SUDENE's establishment.

"Faith" in industrialization as a means to overcome poverty was undoubtedly optimistic and perhaps even naïve, but it was far from conservative. After all, Brazilian society's political maturity prior to the late 1950s did not allow for a politization of the developmentalist debate at the level of a discussion about progressive reforms that might touch upon the basic issues associated with the relations of production among social classes.

Thus, although nationalist developmentalists' "reformism" contributed to differentiate them from other strands of thought, it was not essential to that which represented the definitory element in their thought. In other words, it was not an essential element in defining their basic project, i.e., the proposal of assuring massive state participation in the economy so as to make it possible to overcome underdevelopment and achieve economic and political emancipation through an industrialization process.

In the early 1960s, the crisis situation set up a confused intellectual scene where the messages conveyed by the nationalist developmentalist current — calling for a redefinition that must incorporate social problems — needed more time than was granted them by Brazilian history, which barred those economists from political participation after the military coup in 1964. Some attempts were indeed made, as we shall discuss elsewhere in this work, but in essence the developmentalist project was not re-elaborated. In this sense, it is immaterial that nationalist economists, following a traditionally progressive and reformatory inclination (which would perhaps allow them to be called "leftist social democrats", were it not for the vagueness of the term), positioned themselves at that historical moment in favor of some basic reforms and of the land reform; the fact is they lacked sufficient time to elaborate a complete redefinition of the developmentalist project such as might incorporate firm propositions regarding basic reforms and social ques-

tions into a politically feasible social and economic program.

However, that was a time when these questions did come to be part of nationalist developmentalists' economic reflections about solutions for the Brazilian crisis. It was a time, therefore, rather distinct from the previous decade, when those same economists devoted themselves to a project where the place assigned to reforms at the level of income distribution and, above all, rural landownership was quite secondary, as compared to the place assigned to concerns about state investments on behalf of industrialization. With respect to these questions and to others that characterized nationalist developmentalism, Furtado's analyses are representative of this current of thought.

## ii. Celso Furtado's thought

### a) Introduction

Celso Furtado was the major economist of the nationalist developmentalist current in Brazil. As co-author of structuralist theses, he applied them to the Brazilian case and made them known throughout the country with great competence, giving analytic consistency and assuring a minimum unity to the economic thought of a significant number of governmental officials committed with the Brazilian industrialization project. Furtado's inexhaustible vitality and remarkable capacity to combine intellectual creativity with an effort of execution, as well as his skill and expediency in making room for the developmentalist goals he propagated, account for his enormous influence on the economists of the time. He unquestionably became a sort of symbol of the Brazilian developmentalist hopes of the 1950s.

Furtado graduated in Law at Universidade do Brasil in 1943, then joining DASP's technical staff. He was granted a fellowship to pursue his Ph.D. studies in economics in Paris, where he studied from 1946 to 1948. In 1949, he was invited through DASP to join the newly-created ECLA in Santiago, Chile, where under Prebisch's guidance he worked on the elaboration of ECLA's theses from 1949 to 1953. By 1953 he finished his book A economia brasileira, which



is a structural analysis of Brazilian economic history. With some improvements, subtractions and additions, this study was later transformed into the now classical Formação econômica do Brasil,<sup>1</sup> which ever since became a kind of mandatory textbook in all Brazilian universities and is, by and large, the most widely read work on Brazilian economy both in Brazil and abroad.

Returning to Brazil in 1954-1955, he headed the Joint ECLA/BNDE Group, where he elaborated a study in support of a developmental program for the period 1953-1962, which was the first application of ECLA's then newly elaborated programming technique. In those two critical years of Brazilian political life, he was the leading founder of the Economists' Club and of the journal Revista Econômica Brasileira, which congregated the elite of developmentalist technicians working for the Federal Government in Rio de Janeiro. The latter's more or less obvious and explicit goal was to contribute to the consolidation of an ideological basis for the developmentalist project by means of participating in the country's economic debate.

In 195<sup>8</sup>~~8~~ and 1959, Furtado sowed the seeds of some proposals which were soon to materialize in SUDENE, thanks to the decisive support he received from Juscelino Kubitchek, who was fascinated by that idea under the influence of a common friend of theirs, Cleantho de Paiva Leite, then director of the BNDE. The "Operation Northeast" project (OPENO) was elaborated at BNDE itself, where Furtado filled a special management office created to guide the Working Group for Northeastern Development (GTDN), which elaborated SUDENE's program. From 195<sup>9</sup>~~9~~ to 1962, Furtado was in charge of SUDENE in Recife, his home town. From that city and from regional planning he transferred himself into Brasília and national planning. He next held the office of Extraordinary Minister of Planning, a job created, so to speak, to legitimize the publication of the Triennial Plan, whose composition had been entrusted upon him by President João Goulart and Finance Minister San Tiago Dantas. The

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(1) Furtado, C., Formação econômica do Brasil, São Paulo, Cia. Editora Nacional, 1979.

Plan's publication, in December 1962, occurred already in the throes of a deep and growing economic and political crisis that was soon to drive him away from both his new office and, within slightly over a year, from national life itself.

In the course of his foregoing trajectory, apart from his studies on planning and his work about Brazilian economic history, Furtado produced a large number of articles and conferences, as well as four other books.<sup>2</sup> The most important among these is Desenvolvimento e subdesenvolvimento, a work compiling his articles of the 1950s where he positioned himself with regard to the theoretical problems of development and introduced the structuralist theoretical perspective.

Furtado's intellectual work in the period up to 1964 is a highly creative exercise in improving, applying and spreading structuralist thought. A basic aim — and also an effective outcome — of this work was to consolidate among Brazilian nationalist developmentalists a minimally homogeneous understanding of the country's underdevelopment problems, as well as to equip them with a theoretical weapon to fight opposing currents' analyses and proposals. But this is not the only reason why Furtado became the most representative economist within that group. This status was also due to the fact that his work contains, in rather elaborate form, the three characteristics that combine to distinguish the political content of this current's economic thought from that of other developmentalist currents.

First, it includes a defense of the state's leadership in promoting development through investments in strategic sectors and specially through economic planning. Furtado, like other economists who followed his line of thought, did not dismiss foreign capital's contribution, provided it were subjected to proper controls. His conception of this question centers around the

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(2) The four books are Perspectivas da economia brasileira, Rio de Janeiro, ISEB, 1958; Desenvolvimento e subdesenvolvimento, Rio de Janeiro, Editora Fundo de Cultura, 1961; A pré-revolução brasileira, Rio de Janeiro, Editora Fundo de Cultura, 1962; and Dialética do desenvolvimento, Rio de Janeiro, Editora Fundo de Cultura, 1964.

idea that only through state co-ordination is it possible to internalize the decision-making centers concerning the fate of Brazilian economy and break off the relations of submission to advanced countries' traditional domination. In other words, only through decisive state action would it be possible to promote national economic emancipation.

Secondly, Furtado's work contains the structuralist argumentation in favor of subordinating monetary and exchange rate policies to developmental policies, which is the basis of the nationalist argumentation against the stabilization programs preconized by the IMF. Finally, his work shows a commitment with socially-oriented reforms. The concern about such reforms gradually achieves a growing importance in his writings, from his early advocacy of progressive taxation through a project for regional income de-concentration (SUDENE) and up to his support of a land reform.

Our review starts off with an examination of Furtado's analytical orientation and his contribution to structuralist theories (including his work on Brazilian economic history, of which we shall make an assessment in the Appendix to this chapter). Next we shall cover the three aforementioned aspects, starting with the analysis of his views about inflation and the balance of payments, proceeding through the consideration of his views about the roles played by both the state and foreign capital, and closing with an examination of his stance in regard to distributive questions.

## b) Furtado's analytical orientation

### b.1. Introductory remarks

Furtado was one of the major authors of the structuralist school. In strict agreement with the school's spirit, he followed Prebisch's attitude toward economic theory to the letter. While still in Santiago in 1949, he is likely to have read, still in manuscript form, Prebisch's passage of the "Latin American Manifesto" where the latter exhorted young economists in the continent to achieve theoretical independence in their job of analyzing Latin

American realities and to challenge the "false sense of universality" which, in his opinion, was found in economic theory as employed in advanced countries.<sup>3</sup>

Prebisch wrote his challenges at a time when his own staff, which included Furtado, was busy elaborating the foundations of the structuralist theory of economic development. Furtado participated in this theory's initial formulation and made several contributions to its development. In the course of the public debate about economic policies and development, he was led to substantiate and reformulate ECLA's theories so as to activate the two functions to be performed by structuralist theory, i.e., to attack liberal economic policies supported by conventional economic theory and to propose alternative measures with a developmentalist content.

Besides being a structuralist, Furtado was also a Keynesian economist. An atypical Keynesian, one might say, as given his understanding of the characteristics of underdeveloped economies — lack of, and not excessive savings, as in advanced economies —, no general application of Keynesian macro-economy could be made quite as in analyzing mature economies, i.e., in dealing with anti-cyclic problems. In this sense, Furtado's well-known analysis of Brazil's recovery in the early 1930s may be considered an exception.<sup>4</sup>

Keynesianism as used in Furtado's works was nearly always distinct in nature, consisting more properly of a derivation of Keynesian-oriented macro-economic analyses. Moreover, it was perfectly harmonized with the remainder of structuralist analysis. In essence, it consisted of the fact that Furtado's structuralist studies on Brazilian economic history and Brazilian economy as a whole were subordinated to the notion that the domestic market is an essential element to dynamize production and income. This principle, which bears a certain resemblance to that of the multiplier, guides Furtado's

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(3) Prebisch, R., Desenvolvimento econômico da América Latina e..., op. cit., p. 17.

(4) Furtado, C., Formação econômica..., op. cit., chapter XXXI.

analyses in two ways. First, he explains, for example, how income expansion in a slave-based, export-oriented economy was severely limited owing to a combination of elements that made foreign stimuli exhaust themselves within the very exports sector. On the other hand, apart from this form of Keynesianism used to demonstrate the non-existence of the multiplier effect in slave-based economic systems, the principle was also employed in a positive sense, as for instance in Furtado's claim that wage labor in coffee-based economies had been the chief pre-requisite for foreign stimuli to activate a cumulative effect of production and income expansion. To put it differently, Furtado believed — as in fact did a number of analysts of underdevelopment — that the dynamics of economic growth in peripheral countries was determined by demand pressures, in contrast with the classical or Schumpeterian model.

Another dimension of Furtado's thought reinforcing a certain "aura of Keynesianism" in his work consisted of his views about planning, which he favored most enthusiastically, as in fact did the other ECLA authors. In this sense, of course, the term "Keynesian" has a merely symbolic meaning and stands for the fact that structuralists, like Keynes's followers, challenged the idea that the economic system tends to reach an automatic equilibrium and maximum efficiency, provided the free movement of market forces is guaranteed. The resemblance ends, however, in this attitude of challenging conventional economic theory and concluding for a need for governmental intervention. In the Keynesian perspective, planning is meant to reconduct the economic system to a situation of full employment and to keep it that way. In structuralism, it is meant to co-ordinate industrialization efforts so as to attain a position where the structural obstacles that hinder development may be overcome.

In the following section we shall summarize the basic features of Furtado's structuralist thought by means of an examination of his contributions to ECLA's theory of economic development. By way of introduction, we must note that Furtado's engagement in this task did not stem merely from a rejection of the static view of comparative advantages in international trade,

or merely from his rejection of the conventional interpretation that the foreign deficit of Latin American countries is a consequence of inflation. This may have been simply the starting point of his ECLA-inspired rebelliousness. In Furtado, the compliance with Prebisch's message includes an obstinate search for an entire theory that might be adequate to understand Latin American underdevelopment. It also includes the frustration of someone who could not find in economic theory the desired analytical tools. In fact, Furtado was sceptical even with regard to the usefulness of the theoretical tools available to analyze the problems of development in advanced countries as well. In the last chapter of A economia brasileira, for example, after examining what he viewed as the major component elements in classical and neo-classical theories, in the Schumpeterian perspective, and in the Keynesian stagnant perspective, he concluded:

"The preceding remarks make it apparent that the problem of development has always come second in economic science. So far, economists' attention has focused on problems pertaining to the distribution of the social product, the fluctuations in price levels, and the periodic inadequacy of the degree of productive capacity utilization. The analysis of those problems has occasionally led some theorists to make marginal considerations about the problem of long-term growth. And generally speaking, these considerations have led rather to the formulation of a theory of stagnation than a theory of development".<sup>5</sup>

The author makes no considerations about the applicability of those theoretical tools to underdeveloped structures. However, the purpose of his approach is rather clear: it has to do with his strong belief in the need to formulate a theoretical construction that might be appropriate to the analysis of underdevelopment. This is certainly why he reproduces the same chapter in Desenvolvimento e subdesenvolvimento, published years later and

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(5) Furtado, C., A economia brasileira, Rio de Janeiro, Editora A Noite, 1954, p. 245.

organized with a view to legitimizing the structuralist theory of underdevelopment. Finally, let us examine the relationship between Furtado's work and the structuralist analytic frame.

b.2. The handling of essential elements within  
the structuralist analytic frame

In order to assess Furtado's structuralism it is helpful to use as a basis the systematization of Prebisch's and ECLA's theory as presented in section 2.3 of the General Introduction to this work. According to that systematization, there are five basic elements in ECLA's approach:

- a conceptualization of peripheral underdevelopment;
- an identification of spontaneous industrialization so as to understand its meaning and basic dynamics;
- a view of peripheral industrialization as an unprecedented and problematic historical process;
- theorization about inflation;
- theorization in favor of industrialization, protectionism, and planning.

In terms of Furtado's works, there is no need to examine separately the questions of the theorization about inflation and in favor of measures supporting a planning strategy, as we did in that early section, it sufficing to consider them along with the question of ECLA's view that peripheral industrialization is problematic. Furtado made some structural analyses of inflation that were independent from the type of systematization that was to be produced by authors like Noyola Vasquez, Sunkel, and Pinto, but one cannot say that the subject received from him an effort of theorization comparable to that made by the latter authors. Also, he did not theorize about the terms of trade and protectionism as Prebisch did, and his defense of planning emerges as a corollary of his analysis of "problematic industrialization". We shall therefore limit ourselves in what follows to the first three points

mentioned above.

b.2.1. The characterization of underdevelopment  
as a peripheral condition

As we have seen, in the sense given to it in Prebisch's and ECLA's pioneer writings, underdevelopment corresponds to the existence of a heterogeneous economic structure in the periphery. By virtue of their relations with advanced economies, peripheral countries show a co-existence of modern sectors that are essentially devoted to export activities and an extensive subsistence sector with much lower productivity levels than those observed in the former one.

As a result of this, development in peripheral countries may be understood as a process of homogenization of productivity levels throughout the economic system. Given the absolute insufficiency of the export market's expansion, this homogenization can only be made feasible by means of an industrialization process.

Furtado's work contains a systematic effort to improve upon this central structuralist proposal in ECLA's interpretation by means of an effort of historical analysis. Besides his study on Brazilian economic history, which we will comment on later ahead, Furtado's most expressive work along these lines is the series of articles collected in Desenvolvimento e subdesenvolvimento. In this book, the basic point in its author's analysis is the idea that underdevelopment is not a historical stage common to all countries, but rather a specific condition of the capitalist system's periphery, a historical result of the world economy's evolution since the Industrial Revolution.

Furtado's account starts from a conceptualization of the classical historical process of development. Underdevelopment is said to be a by-product of that development, i.e., a productive structure historically determined by the development of European capitalism. Moreover, it would have entirely distinct characteristics from the economic systems that originate it.



Furtado makes an assessment of the basic dynamic elements of the classical type of economic development, which serve as a counterpoint to his argumentation that the effect of European capitalism's development upon backward economic structures had resulted in the establishment of an entirely distinct economic structure in those countries, as compared to the advanced ones. In classical development, technological evolution — which has rendered the entire economic system more or less homogeneous — resulted from specific historical conditions. In other words, it resulted from the historical determinants of the transition from commercial capitalism into industrial capitalism, as well as from a relative reduction in labor. The history of the establishment of underdeveloped structures is said to have been rather different from that.

This is where Furtado offers a characterization of peripheral underdevelopment that is an important improvement upon the original structuralist conceptualization. His formulation of the question starts off from the following idea: "The advent of an industrial nucleus in eighteenth-century Europe caused a rupture in the world economy of the time and determined the subsequent economic development of nearly every region in the planet. The action of this powerful dynamic nucleus was headed in three distinct directions".<sup>6</sup>

The first direction was the very industrial development of Western European countries. The second one was the displacement of those countries' economic frontiers to regions that were still unpopulated and whose characteristics were similar to Europe's. That was the case of Australia, Canada, and the U.S.A., whose economies were, in those days, "a mere extension of Europe's industrial economy"; it was also the case of those regions to which the immigrating populations brought "Europe's technique and consumption habits" and where they found a wealth of natural resources that allowed rather

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(6) Furtado, C., Desenvolvimento e subdesenvolvimento, op. cit., pp. 171-172.

high productivity and income levels.

Finally, the third line of development of European industrial capitalism resulted in the establishment of underdeveloped economic structures.

Furtado's full argumentation is worth transcribing:

"The third line of expansion of European industrial economy headed towards already populated areas, some of which were densely populated and had various types of age-old economic systems, all of them pre-capitalist in nature. The contact between vigorous capitalist economies and those regions of ancient colonization was not uniformly established. In some cases, all interest was restricted to the opening of some lines of trade. In others, there was from the very beginning a wish to enhance the production of raw materials for which there was a growing demand in industrialized centers. The effect of the impact of capitalist expansion on archaic structures varied from one region to another, depending upon local conditions, the type of capitalist penetration, and its intensity. The result, however, was nearly always the creation of hybrid structures, part of which tended to behave like capitalist systems while another part remained within the pre-existing structure. This type of dualistic economy is specifically the phenomenon of contemporaneous underdevelopment.

Underdevelopment is therefore an autonomous historical process, and not a stage that has been necessarily experienced by those economies which have already attained a high development level".<sup>7</sup>

As in ECLA's writings, development is viewed by Furtado as a process of homogenization of those hybrid structures through an industrialization process. However, Desenvolvimento e subdesenvolvimento, the book conveying the foregoing analysis, already belonged to a stage in Latin American development where some ground had been gained by the more pessimistic idea of a tendency toward the perpetuation of underdevelopment even in the event of great progress in the process of industrialization.

In the aforementioned book, Furtado takes up Prebisch's view that

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(7) Furtado, C., Desenvolvimento e..., op. cit., p. 173.

peripheral industrialization is likely to reproduce the technological patterns found in advanced industries. This is emphasized by the idea that new industrial centers are established in a process of permanent competition between national industry and foreign manufacturers, which entails local entrepreneurs' adoption of the same capital-intensive techniques employed in more advanced economies. This idea is then used as a basis for the statement that it is hard to change underdeveloped countries' occupational structure even in case of an intensive industrialization process. According to Furtado, one can thus understand why an economy "where industrial production has already attained a high diversification level and has a share in production that is hardly distinguishable from the one found in advanced countries should present a typically pre-capitalist occupational structure, and why a large part of its population should be estranged from the benefits of development".<sup>8</sup> In another passage, the author adds that if overcoming underdevelopment is equivalent to eliminating technological inequalities, which may be assessed by the occupational structure, then it is quite possible that the industrialization process in peripheral countries maintains their underdevelopment level unaltered.

#### b.2.2. Industry seen as a new dynamic pole

In our former appreciation of structuralist theory, we have indicated as a second basic element in ECLA's approach its analysis of the industrialization process under way, which represented a discovery or a fresh awareness of a new dynamics of growth originating in the decade of 1930. Among ECLA's authors, Furtado is likely to have been the one most closely concerned with that dynamics.

During the launching phase of structuralist propositions, the emphasis in Prebisch's writings was that industrialization was the solution to which Latin American countries should turn in order to overcome underdevelop-

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(3) Furtado, C., Desenvolvimento e..., op. cit., p. 135.

ment. Those writings have the generic sense of the advocacy of a vast project. This is the sense according to which Hirschman nicknamed Prebisch's 1949 essay "the Latin American Manifesto". Already in those days, the predominant concern in Furtado's writings was clearly somewhat distinct, viz., he aimed to understand the dynamics of the industrialization process under way.

The section of ECLA's 1949 Economic Study devoted to Brazil and elaborated by Furtado is a case in point. The text opens with the following statement:

"Brazil is perhaps the Latin American country where one may find the clearest expression of the dynamic phenomena of a fully blossoming economic system".<sup>9</sup>

There follows a report on the occurrence of a persistent foreign disequilibrium caused by the inequality between income growth rates and import capacity, as well as the conclusion that, "in order to counterbalance this tendency toward a disequilibrium while assuring an increase in the import of certain types of goods, Brazil was progressively forced to replace other imported goods by similar locally-produced commodities".<sup>10</sup> We next read the statement that the composition of imports was being altered to "comply with economic development's needs".

The study also gives great prominence to Brazilian iron and steel industries, then under the leadership of newly established Companhia Vale do Rio Doce and Companhia Siderúrgica Nacional, both of which were state-owned companies. Furtado refers to this industry as "an advance of major importance" in that it reduced the pressure on the balance of payments, apart from having a strategic role in the industrialization process.

However, Furtado's attention to the dynamics of the historical

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(9) ECLA, "Estudo economico de America Latina, 1949", chapter concerning Brazil, p. 193.

(10) Idem, p. 196.

process then under way in Brazil is more clearly disclosed in an essay published in RBE in 1950, the same year of publication of ECLA's study. This essay, which was a forerunner of Furtado's studies about Brazilian economic evolution, includes a section headed "growth crisis and development of the domestic market". In it, Furtado refers to the crisis of 1929 as a landmark closing an evolutionary phase in Brazilian economy and starting from which the mass of investments was displaced from the export sector into domestic market sectors. This re-directing was said to have been stimulated by a "substitute drive toward domestic production" generated by the need for dramatic import reductions. Furtado himself summed up his interpretation of the determinants of growth in the new phase:

"Two factors, in short, have converged in their operation: (a) the reduction in the import rates of medium and high income classes; and (b) the impossibility of keeping the same pace of investments in the colonial economy sector. The impact caused by the foreign crisis has thus given Brazilian economy a chance to develop its domestic market".<sup>11</sup>

This analysis reappears in Formação econômica do Brasil as a key idea to account for the transition into industrial economy. In that text, it was referred to as the "displacement of the dynamic center", a concept that became a sort of paradigm for analyzing Brazilian economic history in the first half of the twentieth century.

#### b.2.3. Peripheral industrialization as a historically unprecedented and problematic development process

The third point in our earlier assessment of structuralist theory concerned ECLA's interpretation of peripheral industrialization as an unprecedented process in universal history, and a problematic one as well. According to that school, it had consisted, in the first place, of a process

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(11) Furtado, C., "Características gerais da economia brasileira", RBE, March 1950, p. 28.

designed to homogenize the productivity levels of the dualistic economic structures formed during the period of specialization in export activities. The starting point of that process being the heterogeneity of those structures, its evolution was said to be linked to a reduced savings capacity, which would be all the more so the larger the populational segment underemployed in subsistence sectors. The problem was further aggravated by the adoption of capital-intensive techniques, which disclosed a poor utilization of the scarce savings available and a waste of the one resource that was abundant: labor.

Secondly, it consisted of a process of local production of goods designed to supply a sophisticated demand structure, a process that had been initiated by a sudden collapse of import capacity. It thus differed from classical development, where the demand structure and the dynamics of growth resulted essentially from technical progress and other conditions pertaining to the productive process. Peripheral industrialization, whose birth had already been tied to a modern demand pattern, was further characterized by suddenly impinging upon a little diversified productive structure with poor vertical and horizontal integration. This would imply the need for a radical change in the productive structure through huge and intensive investments in the import of equipment and raw materials. Under the circumstances, substitute industrialization, which was potentially dynamic in nature, was said to be hindered by the low savings levels and inadequate import capacity. This inadequacy resulted, first, from the slow expansion of the international demand for export goods from the periphery, and second, from the deterioration in the terms of trade, which also affected the savings capacity.

The overall process could thus be seen as a problematic one, its problems finding expression in the inevitable imbalances in foreign accounts and the domestic sectorial disproportions — two structural characteristics that, in turn, were said to determine a permanent tendency toward inflation.

The foregoing elements were not always clearly articulated in the writings of structuralist authors. Generally speaking, however, they cor-

respond to the basic analytical frame of their interpretations of the problems of peripheral industrialization. There were even times when they were arranged and combined with greater rigor, i.e., times when the analyses received a more careful formal treatment, as in the case of the theorization about inflation. Among ECLA's authors, Furtado was precisely one of those who showed greater concern about giving a clear account of the structuralist perspective. His writings reveal an author who was permanently attentive to the theoretical implications of employing the elements described above and who was aware of the need to spell out and legitimize the analytical innovation of the structuralist approach.

A case in point is his treatment of the question of "technological heterogeneity". This expression was to be used only after the mid-1960s by Aníbal Pinto and other ECLA authors, but prior to that, in Desenvolvimento e subdesenvolvimento, Furtado already defined the "level of underdevelopment" as an indication of that heterogeneity, given by the relation between labor engaged in "pre-capitalist" sectors and the total labor force. In the same text, he emphasized the possibility of a perpetuation of underdevelopment even amidst intensive industrialization, owing to the use of capital-intensive techniques in strongly dualistic technological structures.

The problem of the perpetuation of underdevelopment, among the questions associated with technological heterogeneity, seemed to be Furtado's major concern. As a matter of fact, the hierarchy of his concerns did not differ from that observed in most of those who studied the problems of underdevelopment. In the foreground, as one might expect, there was the question of the low savings capacity of underdeveloped countries. Notwithstanding this, Furtado's views on Brazilian economy were optimistic.

The author relied on the existence of a vast potential surplus in Brazilian economy. His point of view, which would rather remind us of Paul Baran's approach than of that pursued by people who studied African and Asiatic economies, was that in the case of Brazil, a country that had already

attained a minimum indispensable level of productivity, the debate about an absolute shortage of savings should be replaced by a discussion of the mobilization of potential savings. For example, in an article criticizing Nurkse's famous Rio de Janeiro conferences in 1951, where Furtado disagreed with that author's generalization about the problem of "the small size of the market", which he felt to be inadequate for cases like Brazil, he nevertheless supported Nurkse's concern relative to capital accumulation by means of a taxation on consumption:

"In effect, Professor Nurkse's most important contribution in his conferences may lie in the way he relates fiscal policies to savings in underdeveloped countries. Although this is perhaps the central problem of economic development in our days, it is still poorly understood. What our economy lacks are not incentives to invest, but rather to save. The problem is much deeper than a mere organization of the capital market. In view of the powerful stimuli to consume activated by the more advanced economies, as clearly explained by Prof. Nurkse, it is extremely difficult for our economy, in its current developmental stage, to reach a high savings level spontaneously. If we wish to attain a greater and more balanced development level, we must assign top priority to the problem of savings. A country like Brazil has a wide potential savings margin that might be captured by forced savings of some sort. It is altogether unrealistic to think that one could re-create in Brazil the forms of spontaneous saving that were typical of the nineteenth century. Prof. Nurkse does not make that mistake, and this is certainly the best lesson we can learn from him".<sup>12</sup>

As we will see later on, Furtado criticized on different occasions the conspicuous consumption of the more affluent classes, and proposed the binomial taxation raises/state investments as a way to absorb the accumulation potential which, in his opinion, was wasted in the economy's private area, transforming itself into conspicuous consumption.

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(12) Furtado, C., "Formação do capital e desenvolvimento econômico", in A.N. Agarwaha and S.P. Singh (eds.), A economia do subdesenvolvimento, Rio de Janeiro, Forense, 1969, pp. 340-41.



Still in regard to the treatment given to the question of savings, it is in order to make a digression at this point to help understand Furtado's analytical methodology. The reading of his texts allows for the conclusion that, in his opinion, the emphasis on the idea of an absolute shortage of savings — as expressed, for example, in the popularity of the concept of a "vicious cycle of poverty" — often impoverished the analysis of the economics of underdevelopment. That is the message implicitly conveyed in the aforementioned article criticizing Nurkse. Instead, as suggested by the same article, Furtado was inclined toward a historical analysis of the dynamic possibilities of overcoming dependence on foreign trade, or overcoming underdevelopment itself by means of strengthening the domestic market. In that article, he presented the analytical approach that was to guide all of his work concerning Brazil's economic evolution:

"Should the foreign drive suffer an interruption when the average productivity level is still very low, the development process is likely to be interrupted. But if the economy can reach certain productivity levels allowing for a somewhat large net capital accumulation, the relative importance of foreign stimuli to the growth process will tend to be reduced. As productivity raises, there is an increase in real income and a diversification of demand opening up new investment opportunities..."<sup>13</sup>

In fact, Furtado's major concern was the analysis of what he himself called the "development mechanism". This is precisely why his methodological considerations, as expressed in his criticism of Nurkse, are reproduced in the preliminary edition of Formação econômica do Brasil, i.e., in A economia brasileira, as well as the collected papers which gather the essence of his theorization on the methodology of historical analysis and on structuralism, i.e., in Desenvolvimento e subdesenvolvimento.

The latter book is also the place to find the text that best cla-

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(13) Furtado, C., "Características gerais...", op. cit., p. 325.

rifies the point we are concerned with in this section, i.e., Furtado's views regarding the conditions of structural heterogeneity and scarce diversification of the productive apparatus in underdeveloped economies, as well as the related problems of inadequate savings and import capacity.

It is clearly the latter of the foregoing problems Furtado is more deeply interested in upon examining those underdeveloped structures that have an adequate domestic savings potential.

The passage below is a good example of his assessment of the problem of inadequate import capacity. After noting that in the pre-industrial stage the dependence of capital accumulation on foreign trade is related to the provision of savings, and not to import capacity expansion, Furtado said:

"As the economic structure reached intermediary and high underdevelopment levels, the terms of these problems were changed. In fact, it was no longer so much on the side of savings that the process of capital accumulation was linked to the foreign sector (...) However, this independence, as regards the creation of savings, is nearly always accompanied, in intermediary stages of development, by a greater dependence on the transformation of savings into real capital. (...) The Brazilian experience in the recent past indicates that for an import ratio of about 10% of the entire economy, the share of imports in the value of net investments reaches approximately one-third, thus determining a ratio that is over three times above the average one".<sup>14</sup>

Furtado then explained how the industrialization process in underdeveloped countries created the need to expand import capacity. He offered a numerical example comparing the impact on the import ratio resulting from an accelerated economic development in hypothetically underdeveloped structures undergoing industrialization, and the impact resulting from an equally accelerated development in hypothetically advanced economic structures. In the latter case, there would be no reason, in principle, for a change to occur in that ratio. In the former one, however, the ratio would

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(14) Furtado, C., Desenvolvimento e subdesenvolvimento, op. cit., pp. 198-199.

tend to suffer an increase following the dramatic alteration in the sectorial composition of investments, i.e., accompanying the raise in the share of over-all investments characterized by a greater weight of imported equipment and raw materials as compared to agricultural investments. Here is the conclusion of his comparative analysis:

"From the examples presented above we may infer the conclusion that for a given rate of world trade increase, the growth rate compatible with domestic stability is much higher in developed structures than in underdeveloped ones. This explains, on the one hand, the slower growth of underdeveloped economies in the last few decades, and on the other, the well-known tendency toward a disequilibrium in the balance of payments observed in all underdeveloped countries that attempt to intensify their growth one way or another".<sup>15</sup>

Furtado next objected to conventional interpretations of foreign account imbalances, i.e., to the theories that find their cause in the inflationary process. In particular, he rejected the idea that the constancy of foreign debts in underdeveloped countries is the counterpart of a permanently excessive pressure of investments upon savings. He specifically attacked the contractive monetary policies which, on the grounds of this formulation, aim to curb that deficit by reducing the investment rate.

Celso Furtado argued that in underdeveloped structures with a high unemployment level there is a normal occurrence of foreign deficits that are dissociated from inflation, given that import capacity is not expanded in proportion to the demands of economic development. This being so, he felt that there was a need to plan import substitution, instead of adopting orthodox measures to curtail investments.<sup>16</sup>

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(15) Furtado, C., Desenvolvimento e..., op. cit., p. 202.

(16) Idem, pp. 210-221. The use of exchange rate devaluations as an additional tool should also deserve special care in underdeveloped economies, in Furtado's opinion, first of all because they expose the economies exporting products for which there is an inelastic demand to the danger of a deterioration in the terms of trade; second and most important, because by raising the price of capital goods imports, and therefore the price of investments, they affect the economy's growth rate. (Ibid.)

As we can see, the idea of a difficulty in suddenly adjusting a poorly diversified supply structure to the imperatives of a complex demand structure is embedded in Furtado's reasoning about the problems of foreign account imbalances. The same applies to his analysis of inflation. The relation between inflation and the question of the productive structure's inadequacy is clearly expressed, for instance, in a short essay analyzing Brazilian inflation, where we read:

"In my opinion, the basic cause for the chronic propensity to inflationary imbalances in Brazilian economy lies in that, during the growth stages, the overall demand diversifies much faster than the overall supply. There is a far greater mobility on the side of demand than supply.

This phenomenon is specific to underdeveloped economies, which grow rapidly under conditions of spontaneous development with a permanent reduction of their import rate. Underdeveloped economies are characterized by a relative rigidity in their productive apparatus. Whereas the productive apparatus of highly developed economies shows a high diversification level, in economies like the Brazilian one there is a co-existence of diversified and flexible productive sectors with others that are rudimentary and rigid".<sup>17</sup>

The relatively rigid supply contrasts with a "highly mobile" demand that entails "a permanent and quick modification of the productive apparatus". This discrepancy has several effects, "depending on whether or not development is accompanied by an expansion in import capacity".

Furtado's structuralist perspective is therefore summed up in an expressive passage which we quote herebelow:

"Under such circumstances [of a difficulty in making a dynamic adjustment of supply to demand], inflationary imbalances result less from an overall demand that is superior to overall supply than from the existence of a demand that is not matched by supply and a supply that is not matched by demand. When the overall

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(17) Furtado, C., Perspectivas da economia brasileira, op.cit., pp. 69-70.

demand is reduced by deflationary measures, the productive capacity surplus undergoes a fast increase. The balance of supply and demand is therefore coincident with a wide margin of productive capacity underutilization and can only be maintained at a non-existing or very reduced growth pace. Whenever the system begins to grow intensely, the tendency toward imbalances reappears once again".<sup>18</sup>

Following the above statement, Furtado concludes his reasoning with what represents the central element in ECLA's developmentalist project, i.e., the proposal to plan economic development:

"When we ponder over the nature of this problem, we soon realize that the only way to eliminate the tendency toward imbalances is to make supply acquire a greater flexibility and adjust faster to demand. This goal would hardly be attainable in underdeveloped economies under spontaneous development conditions. On the one hand, one would have to identify with due anticipation the general lines of modification in the demand structure; on the other, it would be necessary to create adequate conditions for supply to satisfy a rapidly growing and changing demand. This is one of the main goals of developmental planning".<sup>19</sup>

In other words, the solution for inflation was said to consist precisely in overcoming underdevelopment, and the way to achieve this end was planning. Planning itself thus features as a basic instrument to fight inflation:

"Stability is the major goal, though it should be subordinated to the wider goal of development. For a structural inflation like the Brazilian one to be eliminated without hindering the pace of development there must be a careful planning of the latter".<sup>20</sup>

As a reinforcement to the idea of planning, Furtado stressed that the characteristics of the national entrepreneurial class prevent any expect-

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(18) Furtado, C., Perspectivas da economia..., op. cit., p. 71.

(19) Ibid.

(20) Ibid.

tations of an automatic solution for the problem of sectorial imbalances. The co-existence of "diversified and flexible" sectors with "rudimentary and rigid" ones can be largely accounted for by the lack of experience of national entrepreneurs, who "hesitate in entering sectors that are new to them". This situation, in Furtado's view, is aggravated "by the problem of the control over patents, the difficulty in gaining access to certain equipment and techniques, the prestige of certain brand names, and the fear of a sudden competition by financially strong international groups".<sup>21</sup>

The conclusion reached by our examination of the basic structuralist elements in Furtado's writings is that he moved with admirable ease within ECLA's analytical framework in presenting his developmentalist proposals. Planning emerges as an indispensable element for the efficient industrialization of peripheral countries, given the problems generated by their structural heterogeneity and the rigidity and poor diversification of their productive apparatuses. Planning is warranted as an alternative to predominantly monetary traditional policies, in that peripheral conditions confer to those problems — unemployment, foreign deficits, and inflation — a specificity that cannot be seized by conventional analyses. Furthermore, this specificity requires equally specific solutions in terms of economic policies.

We shall now proceed to examine Furtado's developmentalist ideas as expressed in the context of his analyses of Brazilian economy formulated in the decade of 1950 and the early 1960s. Next, we shall complete our assessment of the basic structuralist characteristics of his analytical approach by examining his master work, i.e., his book on Brazilian economic evolution: Formação econômica do Brasil.

c) Furtado and the distinctive characteristics  
of Brazilian nationalist developmentalist thought

Armed with structuralism, Furtado gradually became the most out-

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(21) Furtado, C., Perspectivas da economia..., op. cit., p. 70.

standing intellectual in the argumentation fronts that, as a group, permit us to distinguish nationalist developmentalism from the other currents of thought which discussed Brazilian economy during the period covered by our study. Structuralism guided him in his proposal to subordinate monetary policies to developmental ones, as well as in his proposal for planning and state intervention to support industrialization. Combined with his political enthusiasm for social reforms, or perhaps overdetermined by that enthusiasm, it also guided him toward arguing for a better income distribution, both at the individual and regional levels, and for a land reform. In the text that follows we shall examine his views regarding these questions. It is advisable to start from the one which, at this point, would seem to allow for greater briefness, viz., his views about monetary policies.

c.1. Subordination of monetary policies to  
developmentalist policies

The preceding pages already contain an adequate description of Furtado's views about monetary questions (and the balance of payments). We have seen that, as a structuralist, he felt that the industrialization process in peripheral economies by means of import substitution led their poorly diversified productive structures to be taken by surprise, thus generating demand pressures on a number of sectors. Furtado considered it typical of underdeveloped economies to show a discrepancy between a "rigid supply" and a "dynamic demand", a fact that provoked a basic tendency toward monetary imbalances. He further believed that the demand for imports resulting from the very dynamics of peripheral industrialization caused the balance of payments to show a permanent disequilibrium, especially when exports tended to stagnate or even decline — in both volume and prices — owing to a shortage of international demand.<sup>22</sup>

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(22) Even so, Furtado admitted that in the Brazilian case, the policy of a physical control over imports and fixed exchange rates, as enforced between 1946 and 1953, "made a large part of export-oriented productive activities anti-economic", thereby incurring a loss of international markets for Brazilian products. See Furtado, C., Perspectivas da economia..., op.cit., p. 25.

Furtado's prescription for counterbalancing the tendency towards monetary disequilibrium, as we have seen, was to enforce developmentalist policies that might render supply more flexible. He objected to monetary policies for considering them innocuous — some imbalances would reappear at every new stage of the system's growth — and for believing that recessionist measures hinder strategic investments and generate idle capacity in a significant portion of the economy which does not suffer from supply rigidity. In short, Furtado's basic view was that the concern with stability, albeit important, should be subordinated to a greater goal, viz., economic development. Given the structural character of inflation, the correct formula to attain some stability without hindering development would be careful planning.

Throughout the decade of 1950 Furtado reaffirmed and improved the structuralist point of view, leading nationalist economists in the argumentation that opposed propositions viewed as contractive. In the early 1960s, when asked to draw up a plan to curb inflation — the Triennial Plan<sup>23</sup> —, he was compelled to reconcile his developmentalist and structuralist orientation with proposals that were recessionist in nature. Pressed by the touchy political task of drawing up a governmental program that might reconcile huge conflicting interests in the throes of the political crisis and sky-rocketing inflation of late 1962, upon being requested by President João Goulart to take charge of the Planning Ministry then being created, and unaware as he was that the economy was entering a recessive phase, Furtado elaborated a plan that posed itself the hard task of reconciling three dimensions of planning: monetary stabilization, continuity of investments and growth, and institutional reforms. With a view to stabilizing prices, the Plan forecast a drop in inflation during 1963 down to the level of 25% p.a. by means of two basic instruments: credit restriction and curtailment of public deficits, in-

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(23) Presidência da República, "Plano Trienal de Desenvolvimento Econômico e Social, 1963-1965".



cluding a cut of approximately 26% in the governmental expenditures forecast in the 1963 Budgetary Law; expenditures were thus forecast to be kept at a level that should be compatible with the historical rate of participation in the GDP (approx. 14%). In practice, therefore, the Plan was dangerously contractive: let the forecast drop in prices fail to materialize during 1963, as indeed happened, and the cuts in public expenditures would represent a fall down to a level below the aforementioned rate of 14%, and credit restriction would have serious recessive repercussions.

Thus, even though the basic propositions that were restrictive in nature were dressed in a structuralist language, as well as in a number of sections devoted to sectorial diagnoses about growth and investment prospects and in generic propositions of a reformistic character (including the land reform), this did not eliminate the fundamental nature of the text: regardless of Furtado's will, the Triennial Plan became an essentially recessive instrument.

This is not to say, however, that the Triennial Plan represents a breach in Furtado's coherence in relation to his earlier analyses. Credit and public expenditure restrictions in the Plan are full of qualifications to the effect that the reduction in inflationary pressures has been planned in such a way as not to jeopardize economic growth. Moreover, in contrast with the decision — which figures among the objective measures intended to promote an equilibrium in the public budget — of cutting governmental expenditures (which are not specified except with regard to the intention of reducing subsidies to wheat and oil), the text attempts to demonstrate, albeit it does not succeed in being perfectly clear in this respect, the intention of raising investment expenditures and reducing only consumption expenditures. The Triennial Plan also includes a defense of the need to revise and update the taxation system with a view to rendering it compatible with the prevailing Brazilian economic structure, as well as a defense of "the need to use taxation as an instrument of economic development and make it

possible, through its use, to guide investments in accordance with the interests of national economy".<sup>24</sup>

Furthermore, even if in terms of actual propositions Furtado's writings contrasted with the fear of recession then voiced by structuralists, the structuralist orientation was indeed preserved at the level of economic analyses. This is demonstrated, for instance, in the following diagnosis of inflation:

"The chronic inadequacy of our import capacity, which calls for permanent structural modifications in domestic supply as a prerequisite for development, has become a primary focus of inflationary pressures, which became even stronger in view of the efforts to transfer resources into the exports sector, regardless of whether such transfers are considered a mere correction of the effects of the exchange rate policies prevailing in the immediate past, or an attenuation of the fiscal burden levied upon that sector. Such transfers are likely to have been the major cause of the recovery (moderate as it may have been) of the quantum of exports, but they were largely carried out to the detriment of the fiscal sector, as exchange rate differences had come to be an important source of revenues for the National Treasury and they were suppressed with no implementation of compensatory measures.

The National Treasury's deficit, along with the behavior of the foreign trade sector, has been the major source of disequilibrium in the last decennium".<sup>25</sup>

President João Goulart's government evidently lacked the political strength required to carry out the fiscal reform that was said to be the sine qua non pre-requisite of the development-with-stability proposal which the Plan claimed to be desirable, even though the way to achieve that development had not been indicated. Some months before drawing up the Triennial Plan, already in 1962, Furtado wrote in A pré-revolução brasileira:

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(24) Presidência da República, "Plano Trienal...", op. cit., p. 194.

(25) Idem, pp. 38-39.

"If we do wish to face the problem of inflation, then we must do so by means of an in-depth fiscal and administrative reform, and not by upsetting the public sector's operation with some inefficient savings plan, or disquieting private initiative with inconsequential measures in the banking sector".<sup>26</sup>

Still without carrying the political burden of the governmental office he was to occupy, Furtado felt free in that book to express his political views about the problem:

"The fact that the Parliament does not allow the administration to collect the taxes it requires, while at the same time increasing governmental expenditures day after day as a consequence of development, clearly translates the current contradiction in national political life. There is a clear awareness that development must be postulated as the paramount goal of all economic policies, hence the approval of grants and plans concerning public works. However, as the Parliament represents only a fraction of national public opinion — that fraction that is economically best prepared to win the elections within the prevailing electoral system —, public investments are not financed with the effort of those who benefit from the advantages of development, but rather with the sacrifice of those who have no access to such advantages".<sup>27</sup>

## c.2. The role of the state and the question of foreign capital

Furtado believed that the success of Brazilian industrialization was strongly dependent upon the control to be exercised by national agencies over those decisions deemed essential for the country's economy. He therefore felt that it was indispensable for the state to have a large share in securing and allocating resources through both a comprehensive planning system and heavy state investments. He also felt it necessary to exercise control over foreign capital.

However, it took him a long time to express his views clearly.

The emphasis on the need for state investments was long incumbent upon other

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(26) Furtado, C., A pré-revolução brasileira, op. cit., p. 46.

(27) Idem, p. 45.

nationalists with an identical developmentalist stance, such as Rômulo de Almeida, Jesus Soares Pereira, and Américo Barbosa de Oliveira. Among the reasons that made him opt for discretion in dealing with this controversial question there is likely to have been his close connection with ECLA, an international agency that continually emphasized the need for foreign capital cooperation in the process of Latin American development. Furtado did not clarify his position until 1962.

At that time, he said it was a misconception that Brazilian development needed any inflow of foreign savings and recalled that "foreign capital inflow means the creation of a permanent outflow of income from the country". He further claimed that "in order for us to reap the genuine benefits deriving from foreign capital — those which result from the inflow of a technology that is continually updated — we need a policy to discipline the penetration of such capital". And he aptly postulated the nationalist stance of the developmentalist current in the state area:

"Industrial development based upon the domestic market has made possible a growing degree of autonomy at the level of the decisions that rule national economic life. This autonomy might have been cut had the basic sectors of economic activity been subordinated from the very beginning to the competing groups that dominate the international market. However, some wise and timely decisions have endowed the country with autonomy in some sectors which, given their strategic role, determine the process of national economic development, such as steelworks and the oil industry.

The combination of those two factors — the displacement of the dynamic sector from primary goods exports into industrial investments, and the autonomy of some basic sectors in industrial production — has created conditions for the decision-making centers of major transcendence at the economic level to be conquered and placed at the service of a national developmental policy".<sup>28</sup>

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(28) Furtado, C., A pré-revolução..., op. cit., pp. 111-112.

This clear statement took Furtado a long time to make, but it is in keeping with his earlier views about the Brazilian developmental process. Throughout his work he voiced his confidence in the state as an agent capable of assuring "self-supported development". Like other ECLA theorists, however, he gave relatively less emphasis to the question of state investments in terms of the problem of guaranteeing efficiency in the industrialization process through planning.

The father of the conception of planning in Brazil was, as we know, Roberto Simonsen. After his death in 1948, several developmentalist personalities, among them Rômulo de Almeida and Américo Barbosa de Oliveira, took up the defense of planning in the country. Even so, Furtado conferred a legitimacy to this question that had not been attained at any previous time.

In the first place, he transformed the proposal of planning into a corollary of the analyses of structural imbalances in Brazilian economy. All of his works dating from the period under examination, including Formação econômica do Brasil, amount to a vast and consistent argumentation that converges upon the principle that overcoming underdevelopment is a task requiring a decisive planning intervention on the part of the state.

Second and no less important, Furtado was the author of the major ECLA study applied to Brazil as a subsidy for its economic planning.<sup>29</sup>

The study is an integral part of the efforts corresponding to the second stage of ECLA's works, i.e., the one that in 1952-53 followed the pioneer phase when that agency had consolidated its conceptual basis in support of the strategy of industrialization as a means to overcome underdevelopment. The basic methodology for works about planning was submitted to the Fifth Section of the Economic Commission for Latin America in Rio de Janeiro, in 1953, at which time there was also a definition of the composition of the

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(29) Grupo Misto CEPAL/BNDE, "Bases de um programa de desenvolvimento para o período de 1955-1962", in Análise e projeções do desenvolvimento econômico, Rio de Janeiro, BNDE, 1957.

Joint ECLA/BNDE Group, where Furtado and Regino Botti carried out the study in question.<sup>30</sup> That methodology follows ECLA's line of "integral planning" and contrasts with the methodology that was to be adopted, in the Kubitschek years, in the Target Plan, which was based upon Roberto Campos's conception of "sectional" or "sectorial" planning.

In comparing those two documents, both of which were elaborated at precisely the same historical moment (the publication of Furtado and Botti's work took place a few months before the preparation of the Target Plan, which used it as a source of data), an element that stands out is the relevance assigned by ECLA to state action as capable of compensating for market signaling deficiencies in terms of resource allocation in all areas of the economy, in contrast with what Campos recommended and put in practice through the Target Plan.

As we have seen in the preceding chapter, "sectorial" planning is the identification of certain sectors that are "bottlenecks" and/or "growth points" in the economy, as well as the definition of sectorial goals, so that the state, through a number of mechanisms, may promote economic policies aiming to assure the required investment rates. The latter, however, are calculated with relative independence from the overall forecasts and estimates of inter-sectorial demands in the economy. ECLA's method, as used by Furtado, purports to be far more comprehensive. The objective underlying the agency's works is a global planning of the economy. One starts off from a macro-economic growth target that is defined in advance, in accordance with a survey of the expansion possibilities of the system as a whole, and calculated on the basis of estimates of the capital-product ratio, the savings rate, and the terms of trade. Sectorial estimates are then prepared in advance including the forecast growth rates and taking into account the dynamics of the final

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(30) The work submitted to the Fifth Section of ECLA underwent some revisions and was published in Portuguese under the heading "Introdução à técnica da programação", in Análise e projeções do desenvolvimento econômico, op.cit.

demand and inter-sectorial relations.

This method is, of course, the technical counterpart of ECLA's proposal of integral planning. Nationalist developmentalists in general and ECLA's in particular indeed viewed this type of planning as perfectly in keeping with the hegemony of private initiative and insisted upon this point to avoid conservative attacks. This is not the right place to discuss the feasibility of planning models of the ECLA type in market economies. What we wish to highlight is, that according to Furtado's conception and to that of Brazilian nationalist developmentalists, the state should play a central role in underdeveloped countries in the process of investing in the economy at large — a role that should extend far beyond the partial guidance provided, for example, in the Target Plan. In the intellectual and ideological debate of the 1950s concerning the question of the state's participation in the economy, Furtado's study was a valuable tool to strengthen the nationalist developmentalist current, in that it performed the function of transforming ECLA's rhetoric of planning into the first Brazilian document subsidizing the exercise of planning recommended by that agency.

A third relevant contribution made by Furtado to the diffusion and consolidation of the concept of planning in Brazil concerns his work in relation to the country's Northeast. His analysis of regional planning, formulated in the late 1950s, already contained rather explicitly the tendency that was to guide the political coloring of his writings in the subsequent decade. Given the relation of this topic to distributive questions, it is more appropriate to deal with it in the forthcoming section, which shall cover Furtado's views in this respect.

Furtado's efforts toward implementing a planning practice in Brazil were rewarded by the invitation he received from João Goulart and San Tiago Dantas, in 1962, to fill the office of Planning Minister then being created. Unfortunately, the only result of Furtado's short stay at the Ministry was his Triennial Plan — which, as we have seen, is rather a political doc-

ument inspired by the conjuncture of crisis (as well as a declaration of developmentalist and reformistic principles which attempted to reconcile the latter with proposals that might lead to recession) than a work of planning with a minimum possibility of guiding a joint effort of investments in the economic system. The political crisis and its outcome prevented the work of economic planning, under Furtado's guidance, from attaining the relevance preconized by nationalist developmentalists in Brazil.

### c.3. Distributive questions

Already in the decade of 1950 and in the early 1960s Furtado's intellectual and executive work reflected a marked concern about social problems and was increasingly inclined toward defending reforms. However, it also reflected the thinking of an intellectual who believed that the industrialization process was the number one solution for basic social problems, as well as the thinking of a public servant whose career opened up to political ascension within the government — an indispensable agency, according to his current's project, to help materialize industrialization. For this reason, his thinking, like that of other nationalist developmentalists, showed a preponderance of the defense of economic policy measures related to industrial development.

Even so, four basic distributive questions are discussed in his writings prior to 1964. First and from the very beginning there is a proposal to redistribute income through a taxation of the affluent classes, in order to increase national savings and state investments. Second and strongly associated to the discussion about fiscal action, there were some remarks still in the 1950s about the relation between income concentration and economic growth — the forerunners of his post-1964 theses. Third, from 1957 onwards, we find a discussion about the problem of regional inequalities, linked to arguments that called for a solution to the northeastern issue. And fourth, there was support to the implementation of a land reform.



We must bear in mind, however, that these questions did not have the analytical importance that was to be assigned by Furtado to distributive problems in his post-1964 works. From that year onwards, both in his "stagnationist" and "post-stagnationist" phases, the major weight of his argumentation lay in the idea that a reform in the agrarian structure and a redistribution of income were indispensable to give a new orientation to the developmental style of Brazilian productive forces. In his pre-1964 works we find some elements that foretell this argumentation, but Furtado's concerns were still not essentially dominated by these issues.

The problem of endowing the state with the financial means he deemed necessary for the developmentalist project was, ever since Furtado's earlier writings, one of his major concerns. He felt that the dominant Brazilian classes were not entrepreneurially-minded. This had already been the subject of a text dated 1950, where he pointed out that the easy-profit mentality, which had historical roots among Brazilian entrepreneurs, was a major obstacle to national development.<sup>31</sup> The translation of this position in terms of obtaining resources to finance development was, of course, the defense of raises in taxation to channel Brazilian economy's potential savings to the dynamic capitalist agent: the state. This defense can be found, for example, in the previously mentioned article criticizing Ragnar Nurkse's Brazilian conferences, where Furtado congratulated Nurkse for his "way of relating fiscal policies and savings in underdeveloped countries" and stated that "a country like Brazil has a wide potential margin of forced savings". In the study prepared for the Joint ECLA/BNDE Group in 1954-55, Furtado remarked that there had been a concentration of income in the period 1947-1953, followed by an "exceptional drive" toward consumption in the "capitalist-entrepreneurial" sector. Here are his own words:

"It is currently taken for granted that, given the high rate of marginal savings of the high income groups, this concentration

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(31) Furtado, C., "Características gerais da economia...", op.cit.

is an efficient mechanism propelling accumulation in periods of fast income growth. Experience would seem to indicate, however, that the behavior of high income groups can be identical to that of the popular classes, the marginal savings rate being put on a level with the average rate (...) The inoperativeness of this mechanism of spontaneous accumulation renders fiscal action indispensable if one means to benefit from favorable stages to accelerate the accumulation process. Given the low savings rate of the high income group, in case the public sector does not take some decisive action as an instrument of accumulation, the growth pace will have to be slowed down. Moreover, if the drive to consume operates with identical efficacy among all social groups, income concentration will begin to operate chiefly as a mechanism concentrating consumption".<sup>32</sup>

Furtado's paper was criticized by João Paulo de Almeida Magalhães, from CNI, on the ground that the studies available showed that it was impossible for the marginal savings rate of the affluent classes to be identical or inferior to that of the lower classes, as asserted by Furtado, and also because Magalhães felt that Furtado underestimated the entrepreneurial capacity of the Brazilian private sector.<sup>33</sup> Celso Furtado replied that Magalhães was right on the question of savings rates only with regard to the long-term behavior, but stated that in the short and medium terms there could be fluctuations in the opposite direction, as had just happened in the Brazilian case. As for the role of the private sector, Furtado said:

"Acknowledging the need for fiscal action — as Almeida Magalhães indeed does — has no implication of pessimism with regard to the role to be played by the private sector in development. Fiscal action may have as a central objective the encouragement of private initiative, the creation of conditions to enhance it, etc. The critic claims that the Joint Group points to no other means of increasing the savings rate than adding the percentage of investments to the array of public expenses. Now, this addition — as in the event of the creation of the National Bank for Eco-

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(32) Grupo Misto CEPAL/BNDE, "Bases de um programa...", op. cit., p. 23.

conomic Development — can be a means of supplying the private sector with the funds it lacks in view of its low savings rate".<sup>34</sup>

The difficulties of the intra-state struggle for resources to finance developmentalist programs under the pressure of inflation and constant threats of public expenditure cuts were reflected in a growing politization of these problems in Furtado's writings, which, by the way, accompanied the country's political climate. As we have seen, Furtado complained in 1962 about reactionism in Congress, in that as a "fraction of national public opinion" — the most affluent one — it refused to pass any legislation to expand taxation. As a result, said Furtado, public investments came to be financed by inflation and were made not "with the effort of those who benefit from the advantages of development, but rather with the sacrifice of those who have no access to such advantages".<sup>35</sup> His recommendations for overcoming the crisis of the early 1960s were expressed as follows:

"Were we to summarize in a couple of words the essential points of structural tension in our economy at the moment, we would say that they result from the agrarian sector's limited ability to respond to economic stimuli that manifest themselves through the price mechanism, as well as from the anti-social way in which financing is granted through the large investment effort made by the public sector. Thus, from an economic point of view, basic reforms can only be efficient if they actually attain two minimum goals: (1) endowing the country with an agriculture that is capable of responding to the stimulus of a growing demand through the absorption of techniques and capital, and not through rises in prices and in the relative remuneration of parasite groups; and (2) endowing the government with a fiscal instrument that may enable it to finance its growing investments with resources collected from those sectors that are actually being favored by development, the latter being the fruit of the entire collectivity's work".<sup>36</sup>

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(34) Furtado, C., "Setor privado e poupança", Economia Brasileira, April-June 1956, p. 101.

(35) Quoted earlier in this chapter (see p. 214).

(36) Furtado, C., A pré-revolução..., op. cit., p. 45.

The reflection about the relation between income distribution and economic growth, which was to assume a central role in Furtado's post-1964 thought, had been tentatively initiated in the earlier phase of his works in a way that was essentially tied to the discussion about the question of taxation. In several writings of the decade of 1950, he argued that taxation and not income concentration was the one thing that might indeed work in Brazil as a mechanism to intensify savings and investments. He reverted to this question once again, this time from the perspective of fiscal action, in his conferences at the ECLA/BNDE/CAPES/ISEB course held in 1957. The only thing is, that instead of focusing on the question of financing state investments, Furtado's attention at that point turned to the question of the relationship among taxation, income concentration, and the allocation of investments in the economy.

Furtado recommended a combination of import taxes on luxury commodities and taxes on the domestic production of such goods so as to discourage their consumption. He pointed out, however, that he did not believe in indirect taxation as an efficient means of reducing consumption in favor of savings and investments:

"Domestic indirect taxes should therefore complement import taxes. This way, a reduction could be achieved in the market for certain luxury commodities, thereby discouraging investments in this sector. This, however, is not the way to attack the heart of the problem. If high income groups wish to maintain certain consumption patterns, raising the price of certain consumption goods may mean, on the one hand, a further reduction on their savings, and on the other, a displacement of their consumption from some sectors onto others. Finding themselves unable to purchase luxury automobiles on account of the difficulty to import them, some consumer groups will tend to invest more in luxury apartments or to increase the frequency of their travels abroad.

The heart of the problem lies in preventing development from generating income concentration, or at least preventing high profit levels from implying a high degree of bonus share distribu-

tions. The point is, therefore, to use fiscal policies to obtain a lower concentration in the distribution of personal income, even if a less unequal distribution of landed property cannot be achieved".<sup>37</sup>

As we can see, Furtado related income concentration at the personal level to a reduction in the economy's savings rate:

"Contrary to a widespread belief, income concentration is not an efficient means to increase the savings rate. It is true that a sudden concentration of income has some positive repercussions on the rate of savings. However, this positive effect has a limited duration and its final result may be negative. Large concentrations of income generate in each and every society a wide social stratum of idlers or semi-idlers, with highly negative direct and indirect effects on consumption habits".<sup>38</sup>

In another passage, Furtado makes an observation that foretells the theses he was to espouse as of the early 1960s:

"It has been statistically proven that development implies a de-concentration of income distribution. It is even admitted that it would be impossible to attain the per capita income level found in the U.S.A., Sweden or Australia on the basis of an income distribution resembling the one that prevails in Brazil. There is no doubt whatsoever that development demands and elicits this redistribution. However, there are institutional factors capable of preventing or at least benumbing development by acting toward the maintenance of income concentration. In some Latin American countries, the regime of land ownership is admittedly one such institutional factor. The concentration of income resulting from the concentration of landed property is detrimental to development because it enhances the emergence of social structures that are not committed to the productive process and are inclined toward high consumption patterns".<sup>39</sup>

In the foregoing conference, the land reform issue was still the object of only a marginal comment. By the time he conducted the aforementioned

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(37) Furtado, C., Perspectivas da economia..., op. cit., p. 49.

(38) Idem, p. 47.

(39) Ibid., p. 49.

ed course, however, Furtado was beginning to develop a work that in later years was to become an important political instrument of intensification of the debate about the land reform in Brazilian society, viz., the work of creating SUDENE.

"Operation Northeast" was presented as a program for restructuring northeastern economy in an attempt to compensate for the region's vast income lag in relation to the central-southern area. Rômulo de Almeida had already supplied the fundamental recommendation upon creating, years earlier, the Northeastern Bank: to replace the traditionally assistive character of the drought-fighting works by a policy of establishing activities that might be compatible with the region's specificities..

By the time the Bank was created, the topic of regional disparities had been dealt with by Hans Singer and Almeida himself in a manner analogous to that adopted by ECLA to compare international inequalities.<sup>40</sup> They had claimed, first of all, that there was a lower productivity in northeastern activities (Singer estimated a northeastern income corresponding to one-third of that found in the state of São Paulo), and that this situation was further aggravated by a slow growth pace, which was considerably inferior to the one observed in the more developed areas. Secondly, they stated that the region suffered a "drainage" of its resources, which flowed toward central-southern areas. One of the forms of this drainage was a deterioration in the terms of trade with the central-southern region. In the authors' opinion, this mechanism operated through the exchange rate policies in force, which since 1947 had overvaluated the cruzeiro and grieved northeastern exports, the region being unable to make low cost imports equivalent in value to its exports, inasmuch as selective import policies favored the central-southern region owing to its better conditions of industrialization.

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(40) The two texts are: Singer, H.W., "Estudo sobre desenvolvimento econômico do Nordeste", Recife, Comissão de Desenvolvimento Econômico de Pernambuco, 1962 (first published by BNDE, mimeo, 1953); and Banco do Nordeste do Brasil, "Planejamento de combate às secas" (study elaborated at the Economic Advisory Board of the Presidency), mimeo, Nov. 1953.

Some years later, a few economists from the Northeast Bank also identified a deterioration in the country's domestic terms of trade between the northeast and the central-southern region. Singer and Almeida, in their pioneer writings, had further pointed to other forms of resource drainage. One of them was the outflow of northeastern capital to central-southern areas on the strength of the appeal of the external economies available in the country's most developed region. Another was the backwardness of the fiscal system, which, by impinging strongly upon exports, imposed a relatively greater burden on the Northeast, given its higher export/gross product ratio. The way to offset these adverse factors would be a governmental policy of fixing capital in that region by means of credit expansion, creation of external economies, implementation of a fiscal reform to eliminate the backwardness previously referred to, establishment of an incentive system, and a guarantee on imports.

Furtado incorporated all of the foregoing elements into his approach of northeastern problems. "Operation Northeast" started from a comprehensive diagnosis made by the Working Group for Northeastern Development (GTDN) and published in January 1959 under the heading "Uma política para o desenvolvimento econômico do Nordeste"; this paper was the basic support to define SUDENE's directives.<sup>41</sup> Just as Singer and Almeida had done years earlier, the GTDN emphasized both the regional disparities in terms of income levels and growth rates and the outflow of resources to the central-southern region, deepening the analysis of these topics. This, however, was not the major virtue of the group headed by Furtado, which lay rather in the presentation of a systemic view of the region's economic problems, accompanied by a definition of the major lines of action to be followed.<sup>42</sup>

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(41) GTDN, "Uma política para o desenvolvimento econômico do Nordeste", Rio de Janeiro, 1959.

(42) This systemic view has been the guideline of the various documents prepared under Furtado's orientation to serve as a basis for northeastern economic policies, as in the case of "Uma política para o desenvolvimento econômico do Nordeste", op.cit., and the writings which planned the

Furtado's analyses often started from a criticism of the assistive tradition of combating the drought. In this respect, he argued that there was an overestimation of the drought problem as concerned the region's economic difficulties as a whole. Moreover, said he, the drought itself had always received a misguided treatment. According to Furtado, water shortage must be viewed as a permanent situation that called for adequate action:

"So far no thought has been given to the creation of an economy in the caatinga. 'Mocó' cotton and some other xerophilous plants are rudimentarily explored. But the caatinga holds many other possibilities and may provide crop forages that are drought-resistant. Some idealists have tried to make up for the lack of appropriate studies by introducing exotic plants such as the algaroba, which is now spreading into the hinterlands. The truth of it is, however, that after a fifty-years' combat against the drought, we still do not know what type of economy can survive in the caatinga.

Notwithstanding the remarkable efforts made in the first few decades of this century to acquire a better knowledge of that region, there has prevailed among the heads of the competent agencies — who have nearly always been skilled engineers — the principle that the northeast's major problem is water shortage. Hence the concentration of efforts to dam up the area's waters. But we know by now that water shortage is only one component element in the problem. We know that if it rained twice as much as it does, the region would possibly be even poorer, as erosion would destroy everything, including the caatinga. The soil component is equally paramount. It is the soil that often makes water utilization difficult or extremely expensive. This explains why we have gone such a long way in accumulating water, yet have advanced so little in terms of its economic utilization".<sup>43</sup>

The major problem to be solved in the semi-arid region would there-

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creation of SUDENE. A good summary of the reformistic procedures adopted by SUDENE can be found in A. Castro's Sete ensaios sobre a economia brasileira, São Paulo, Forense, pp. 180-221.

(43) Furtado, C., "A Operação Nordeste", D.E., May-June 1960, p. 42 (material used in a conference held at ISEB in 1959).



fore be its better economic exploration, as in the following passage:

"In short, northeastern economy's agricultural basis being poor as it is, we must engage every effort to expand this basis by gaining a better knowledge of the region's natural resources. Only through a persistent study of the environment and the development of agricultural techniques duly adapted to tropical regions would it have been possible to create conditions, in the northeast, for the establishment of a highly productive economy. Instead of seeking to acquire a better knowledge of the environment and developing our own production techniques, however, we have restricted ourselves to transplanting solutions. Particularly in the last two decades there has been an accentuation of the tendency toward abandoning basic research studies within the scope of state action in the northeast".<sup>44</sup>

As a supplementary solution for the economy of the semi-arid region Furtado advocated the implementation of a migratory policy through a displacement of agricultural frontiers:

"A more highly productive economy in the caatinga would not be in keeping with a large demographic density. Therefore, the reorganization of the caatinga's economy will create a population-al surplus that must be absorbed elsewhere. Hence the need to incorporate new areas of land to the northeast so as to displace its agricultural frontiers".<sup>45</sup>

Economic exploration of the semi-arid region and the displacement of its surplus labor were two of the four lines of action that composed SUDENE's directives in Furtado's day. The other two corresponded to the major structural transformation programmed by SUDENE for the region: industrialization and the intensification of food production. Concerning the former, here is Furtado's account, which follows a typically ECLA-oriented line:

"By emphasizing the problem of insufficient food production we wish to focus our attention on two basic ideas: the need to in-

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(44) Furtado, C., "A Operação Nordeste", op. cit.

(45) Idem, p. 44.

dustrialize the northeast and the urgency of establishing in the semi-arid region an economy that will adapt better to the environment. The problem of industrialization is posed with unquestionable simplicity: an economy where the land available for agricultural exploration is a relatively scarce factor and where a certain level of demographic density has been attained will find in industrialization the normal path to its economic development".<sup>46</sup>

The second line of action was said to be a sine qua non condition for the success of industrialization, as cost-of-living increases in northeastern urban centers threatened to eliminate the region's major factor of competitiveness as compared to central-southern states, viz., the cost of labor.

Furtado divided the northeast into three areas: the wet zone, which was essentially devoted to sugar cane plantations; the dry area, where the main activity was livestock breeding; and the hinterlands or semi-arid region, where cotton was the major culture. For the first of these three regions he recommended a program to modernize sugar cultivation — a program that should penalize large landholders' failure to comply with it by partitioning their land for food production purposes. For the dry area Furtado advocated a far-reaching reform in the agrarian structure to liberate the land occupied by livestock-breeding latifundia, so as to expand rural economy, which until then had been devoted to the cultivation of food products under conditions of an absolute shortage of land (and capital), and therefore showed an extremely low productivity. Finally, with regard to the semi-arid zone, as we have seen, Furtado recommended an adaptation of production to the ecological characteristics of the caatinga.<sup>47</sup>

The equation of northeastern problems upon the creation of SUDENE

(46) CNI, Anais do seminário para o desenvolvimento do Nordeste, p. 188.

(47) This view appears in several of Furtado's and SUDENE's writings from 1958 to 1964. A good analysis of Furtado's thought about the agrarian question can be found in Carvalho, F.J.C., "Agricultura e questão agrária no pensamento econômico brasileiro", M.Sc. thesis submitted to IFCH/UNICAMP, mimeo, 1978, pp. 60-107.

served to reinforce with a remarkable argumentative power the discussions about the question of a land reform in the northeast.<sup>48</sup> In advocating this reform and stressing its major economic argument — the cheapening of labor —, there were some who said that it would allow for a raise in agricultural productivity compatible with the need to expand the market for the region's industrial products.<sup>49</sup>

Furtado regarded the land reform as an indispensable condition to solve the problem of enhancing food supply in the northeast, but this view did not extend to central-southern areas with equal emphasis. After all, there were data showing that Brazilian food production was under expansion, thereby representing no bottleneck (in contrast, for example, with the case of Chile). For this reason, Furtado's association between a land reform and the expansion of agricultural supply was somewhat less dramatic. The agricultural structure was viewed as a difficulty or limitation in the overall development process, but not as a structural barrier.

Furtado's argumentation in his pre-1964 writings may be summed up as follows: (a) the archaism of the landed property structure and the unproductive appropriation and use of rural surplus by large landholders prevented the introduction of technical progress and the increase in productivity in rural areas; (b) they thereby prevented the rural world from being

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(48) A good point in this discussion was the Seminar for the Development of the Northeast held in 1959 in Garanhuns, Pernambuco, under the auspices of CNI. At that seminar, José Arthur Rios presented a widely accepted thesis on the need for a reform in the agrarian structure. The Church, in the person of Bishop Eugênio Salles, subscribed to that thesis, the same being done by the Seminar's organizer, CNI's General Director Jacy Montenegro Magalhães. Furtado adopted a cautious stance at the seminar, choosing rather to emphasize the need to provide the region with integral planning. Among the economists belonging to the nationalist developmentalist current it fell to Thomas Pompeu Accioly Borges to argue most emphatically for the land reform. Borges was co-author of the reformistic proposals made by the National Agrarian Policies Council, an agency created by Vargas and responsible, during the first half of the 1950s, for the only discussion of some significance about the question of a change in the constitutional clause concerning land expropriation, which, by making cash indemnifications mandatory, rendered any land reform virtually unfeasible. (See CNI, Anais do Seminário para o Desenvolvimento do Nordeste, 1959).

(49) See speech by Dr. Jacy Magalhães, General Director of CNI, in Anais do Seminário..., op.cit., Vol. I, p. 179.

incorporated into development to strengthen it: they hindered surplus expansion and transfer into other sectors by means of price reductions; they kept real wages at low levels and maintained income concentration; and they made it difficult to expand the domestic market for industrial products; (c) they further represented a form of preservation of conspicuous consumption to the detriment of essential consumption, thus leading the process of establishing an industrial structure along a perverse path.

In fact, the discussion of this problem was associated to the question of distributive justice. The passage herebelow, for instance, was extracted from one of Furtado's discussions about the social costs incurred in the Brazilian developmental process — which, in his opinion, was being carried out on the basis of a marked income concentration:

"And not only in regard to income concentration has development included some extremely negative social aspects. In effect, owing to the anachronism of the agrarian structure, this development has elicited in many areas a relative increase in landed property revenues, thereby rewarding parasitic groups".<sup>50</sup>

In Furtado's opinion, the land reform — along with fiscal and administrative reforms — was the sine qua non institutional transformation required for the country's political stability, lest one risked the emergence of "revolutionary methods that would flow into dictatorial political forms under the aegis of social classes, ideological groups, or rigid productive structures".<sup>51</sup> The inflexibility of wealthy classes in regard to taxation raises to finance development, as well as administrative corruption and inefficiency, and the anachronism of the agrarian structure, could not go on receiving support from the political representatives of the people in Congress:

"It is understandable that we find indignation among the young in the face of such a state of affairs: there we have alleged representatives of the people who get elected by public works

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(50) Furtado, C., A pré-revolução brasileira, op.cit., p. 14.

(51) Idem, p. 31.

contractors; there we have the feudal machinery entering into an alliance with budgetary funds to produce parliament members who will be allowed to survive only if they are the docile instruments of their financiers".<sup>52</sup>

Until 1964, Furtado still hadn't elaborated those analyses where income and land distribution were to feature as determinants of the dynamics of economic development. The limits of the present work prevent us from following his intellectual trajectory after the 1964 military coup, which, albeit frustrating his reformistic optimism, did not succeed in destroying the enthusiasm, generosity and creativity of this great master of Brazilian developmentalist thought.

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(52) Furtado, C., A prē-revolução brasileira, op. cit., p. 15.

iii. Appendix: The masterpiece of Brazilian structuralism:

Formação econômica do Brasil

a) Introduction

Celso Furtado's Formação econômica do Brasil is the major work of Brazilian economic literature in the period under examination. It was a work of consolidation of Brazilian developmentalist consciousness, substantiated by its author with a well-developed historical argumentation. Published in its first version in 1954, under the heading A economia brasileira, it also represented an advance in terms of the structuralist approach.<sup>53</sup>

In order to seize the innovative meaning of that work, one must bear in mind that, in the early 1950s, the structuralist approach was doubly vulnerable. First, the structuralist analytical framework was still inaccurately outlined and its argumentation was somewhat unsystematic. This made it difficult to understand and accept ECLA's proposal of an alternative analysis of conventional theories. Second, it was indispensable for this proposal to demonstrate that the historical evolution of those countries that were still underdeveloped in the mid-nineteenth century was necessarily distinct from that of advanced countries. This was the only possible way to legitimize the idea that the former's economic structures and their transformation problems were also distinct from the latter's, demanding a careful adaptation of the theories prevailing and even an effort to formulate their own theorization.

Furtado's book is a reply to this double vulnerability, first of all because — though he was not concerned with theorizing about the structuralist approach — the text's clearness automatically reinforces the theoretical message ECLA had been trying to convey to Latin American economists. Second and most important, because Furtado provided a decisive historical study to legitimize the structuralist approach, at least with respect to the Brazilian case.

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(53) Furtado, C., A economia brasileira, op. cit.

A basic gap in the structuralist proposal lay in the difficulty of giving an adequate answer to an intriguing question that was common at the time and which suggested itself in the very elements spread throughout the writings of ECLA's pioneer phase, viz., "why should the economic structure of Latin American countries have become so distinct from that observed in other 'young' nations like the U.S.A.?"

In accepting the challenge of replying to this type of question, by going deep into the study of Brazil's economic history, Furtado achieved a doubly satisfactory result. For one thing, he answered this and other basic questions by means of a comprehensive structuralist account of the country's economic evolution, and in so doing, he granted decisive legitimacy to the structuralist approach in Brazil. Furthermore, he created a structuralist methodology for analyzing the history of peripheral countries, thereby disclosing an analytical reach in the structuralist approach that elicited admiration from the economists belonging to the ECLA school itself.

No lesser was the praise received by Furtado's work from one of ECLA's most outstanding members, Noyola Vasquez, who commented its 1954 version, A economia brasileira, in the following terms:

"There can seldom be a better indication of the level of maturity and independence reached by Latin American economic thought than this book. Furtado's work is invaluable not only for its penetrating analysis of Brazilian economic history, but also, above anything else, for its methodological contribution. It is a fine synthesis of Cartesian logic and historical awareness. The Cartesian eagerness for accuracy and clearness leads its author to reduce the structure and operation of economic systems down to models of great simplicity. At the same time, his sound historical vision allows him to put these models in proper perspective".<sup>54</sup>

In effect, the work must be viewed rather as a structuralist Keynesian-oriented essay in historical and analytical interpretation than as an in-depth

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(54) Noyola Vasquez, J., critical review of Furtado's A economia brasileira, published in Economia Brasileira, July-September 1955, pp. 191-194.

historical research. As stated in its introduction by the author himself, "the book aims to be no more than an outline of the historical process of the establishment of Brazilian economy", its major concern being to disclose as wide a perspective as possible to the reader interested in "making his first orderly acquaintance with the country's economic problems". Its object was "merely the analysis of economic processes, and not a reconstruction of the historical events behind those processes".

The book's publication exercised an influence on Brazilian intelligentsia that has so far been unparalleled in economic sciences literature in Brazil. This compels us to carry out a detailed examination of its content. Before proceeding to do that, however, some remarks are in order with reference to Furtado's studies about the Brazilian economic history that eventually resulted in Formação econômica do Brasil.

The earliest of Furtado's considerations about Brazilian economic history appear in an article published in RBE in 1950.<sup>55</sup> This work already contained some of the key ideas found in later analyses, such as the "displacement of the dynamic center" and "concentration of income in phases of prosperity and socialization of losses in phases of depression".

The latter is explained as a result of the downward pressures on real wages in all phases of the economic cycle. During boom phases, in Furtado's view, the abundance of labor allows for the appropriation of a growing surplus by a small fraction of the population. During depressions, the losses incurred by the exports sector and the state thanks to the fall in export prices is transferred to the purchasing masses by means of exchange rate devaluations.

It is interesting to note that in this text dated 1950, Furtado gave great emphasis to a conclusion, reached by means of this analysis, that must have delighted conservative economists like Eugênio Gudin. Furtado asserted

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(55) Furtado, C., "Características gerais da economia brasileira", op.cit.



that those characteristics of Brazilian economy had determined the emergence of "a high-profit orientation that will spread from agriculture into the industry". He explained that an excessively protectionist orientation prevailed in industry, including a ban on the import of equipment to cope with crises, in lieu of an effort to raise productivity.

Already in A economia brasileira, however, Furtado abandoned this type of argumentation. And what is more, he abandoned the entire approach to which it had been associated in his text dated 1950, i.e., the emphasis on the non-existence of a dynamic entrepreneurial class as an obstacle to development. This is demonstrated in the following extract:

"Excessively high profits, socialization of losses, partial control over export-oriented agricultural activities by foreign financial holdings, the high cost of money and the weakness of the domestic market, all of these factors contribute to delay the establishment of an authentically entrepreneurial mind in the country, which is a basic condition for the development of a capitalist economy".<sup>56</sup>

From then onwards, the reference to the question of lack of a dynamic national entrepreneurial class remained in Furtado's work only as a reinforcement of his systematic defense of growing state participation in developmentalist undertakings. But it no longer featured in his historical analyses as a significant factor to account for the establishment of Brazilian economy's underdeveloped structure. The latter began to be analyzed by the author in terms of the determining mechanisms of national income during the sugar cane, mining and coffee "cycles", as well as in the more recent industrialization phase. His analysis also began to include, above all else, the questions of the employment composition, income distribution, and the establishment of the domestic market.

A economia brasileira already contains the basic conceptual framework of historical analysis that was to feature in Furtado's future masterpiece,

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(56) Furtado, C., "Características gerais...", op. cit., p. 25.

Formação econômica do Brasil. It also includes a methodological introduction that was not reproduced in the later work and which is an exercise in identifying what Furtado viewed as "the basic categories of the historical developmental process". In this exercise we find the conceptual foundation for a brief essay on the characterization of classical industrialization, which was published in 1955 and later included in Desenvolvimento e subdesenvolvimento. Finally, the book contains a chapter about the "theoretical formulation of the problem of economic development", which was also reprinted in Desenvolvimento e subdesenvolvimento.

Formação econômica do Brasil is a final version of A economia brasileira, duly divested of the latter's more abstract chapters, modified in some points and enlarged with a few additional chapters. In the interval between one book and the other, Furtado published a work titled Uma economia dependente,<sup>57</sup> where the only important change in relation to the first book, apart from the elimination of methodological and theoretical chapters, was the replacement of the term "colonial economy" by "dependent economy" in his characterization of the underdeveloped economies that specialize in exporting primary goods.

The final text is approximately the same as the two earlier ones in regard to the last few chapters of part IV, concerning the "transitional economy into a wage labor system", and the chapters of part V, where Furtado analyzes the collapse of coffee-based economy and the transition into industrial economy. However, the text is far more elaborate in all earlier chapters, which are precisely the ones that give support to the characterization of the Brazilian structure as an underdeveloped one, as well as to the analysis of its specific problems.

- b) The analysis of the establishment of Brazil's underdeveloped structure (1500-1850)

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(57) Furtado, C., Uma economia dependente, Rio de Janeiro, Editora A Noite, 1956.

For our present purposes and notwithstanding the indisputable validity of Furtado's own organization of his book, we find it helpful to divide it into two major parts. One is composed of the first twenty-five chapters, i.e., those dealing with territorial occupation and the slave-based sugar and mining economies, plus the first ten chapters of part IV, which cover the transition into wage labor. In this part of the book, Furtado focuses his attention on the establishment of Brazil's underdeveloped structure. In the second part of our division, composed of all subsequent chapters, Furtado analyzes the developmental problems that take place within this specific structure during both the golden stage of coffee expansion and the transitional phase into industrial economy. The argumentation presented therein with respect to production and income expansion, as well as the imbalances generated in that process, presupposes a knowledge of the characterization of economic evolution up to the late nineteenth century as presented in the earlier part of the work.

In the remainder of this section we shall make an appraisal of the content of both parts of the work with a view to highlighting its contribution to structuralism.

It must be preliminarily observed that Furtado's interpretation rests essentially upon three lines of argumentation that had been somewhat randomly used in his earlier texts, but which alternate in a perfectly integrated way in the course of the final text. One of them is a happy stratagem that consists of confronting Brazilian underdevelopment with American development, which Furtado conceives of in his attempt to clarify the historical determinants of the establishment of distinct economic structures in the "periphery of European capitalism". The second one, which points to a Keynesian inclination in the author's thought, concerns the identification of the obstacles to income expansion, establishment of a domestic market, and diversification of the productive structure throughout the various periods of Brazilian history. The third one is determined by Furtado's structuralist concern with the

question of Brazilian economy's heterogeneity. It consists of identifying the establishment of a vast subsistence economy that both preceded and outlived the coffee cycle.

The first of these expository elements is presented essentially in two points of the book. In the first few chapters it appears as an integral part of Furtado's analysis of the economic foundations of territorial occupation. An explanation for the success of Portuguese colonization based on the commercial exploitation of sugar cane in the sixteenth and early seventeenth centuries, as well as its subsequent decay, is offered in combination with an analysis of the type of colonization effected in the Antilles and North America. With this account Furtado provides the starting point for his later analysis of the contrasts between American and Brazilian economies in the nineteenth century.

He argues that the type of economic activity prevailing in North America until the seventeenth century was consonant with small family-based properties and was free from the need to use large capital volumes. The result was the establishment of communities "with totally distinct characteristics from those prevailing in prosperous export-oriented agricultural colonies: the average productivity was lower, but so were income concentration and the portion of income that reverted to foreign capital remuneration". Furtado's conclusion of the comparison between the two types of colonization is reached by means of a confrontation between English colonies in the Antilles and North America on the strength of two arguments: first, the argument that, "unlike plantation colonies, where a substantial part of consumption expenditures concentrated in a small class of landholders, and consumption needs were attended to by imports, consumption expenditures in the northern U.S.A. colonies were distributed throughout the entire population and there was a relatively large market for objects of common usage".<sup>58</sup>

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(58) Furtado, C., Formação econômica do Brasil, op. cit., p. 31.

In the second place, there was the argument that "to these differences in the economic structure there needs had to correspond some large disparities in the behavior of the dominant social groups in the two types of colonies". In the export-oriented ones, the dominant groups were linked to financial groups at the metropolies and regarded colonies as part of the large enterprise administrated by England. In northern colonies, on the other hand, the ruling classes had great autonomy in regard to the metropolis, which "was needs a factor of major importance for the colony's development, for it meant that it had political agencies capable of interpreting its true interests and not merely reflecting the events that took place in the dominant economic center".

This line of argumentation is again taken up in chapters 18 and 19, where Furtado draws a comparison between American and Brazilian economies by the time of their becoming independent. For Brazilian economy, that had been an extremely bad phase that even included a retraction of national income. For American economy, it had been a stage of industrialization and extraordinary dynamism.

According to Furtado, it is wrong to presume that a basic cause for such distinct performances was the lack of protectionist policies in Brazil similar to those prevailing in North America. He claims that not only the marked exchange rate devaluation effected in the early nineteenth century more than offset the inadequacy of customs barriers in Brazil, but also — and still more important — that protectionism in the U.S.A. had been but a secondary cause of industrialization.

By the time of its independence, Brazil lacked a domestic market, a technical and entrepreneurial basis, and any indication that the ruling classes would give firm support to industrialization — all of which had characterized the American socio-economic structure at the end of its colonial stage. The latter even counted on an industrial basis that had been partially promoted by the metropolis itself, which allowed for the local production of

three-quarters of a large merchant marine fleet.

American development would thus have been propelled by a set of factors. One of them was, in Furtado's view, the stimulus to domestic production expansion stemming from the War of Independence and the Napoleonic wars. An additional and still more important factor had been the "leading" position American economy managed to assume in the European Industrial Revolution itself thanks to its cotton exports. According to Furtado, the success of American economy was further due to the establishment of a capital flow from England. Besides expanding capital accumulation, this inflow of resources served to offset foreign deficits that could not have been avoided even by the success in exports. In short, "the development of the U.S.A. in the late eighteenth and first half of the nineteenth century is an integral chapter of the development of European economy itself".

As for Brazil, besides lacking a domestic market, a technical and entrepreneurial basis, and a dynamic ruling class, it also lacked those basic foreign stimuli. On the contrary, what we do observe in the first half of the nineteenth century is a stagnation of Brazilian exports, its result being that the domestic consumption level itself began to decline, thereby hindering the expansion of the textile industry, which had already been hampered by the drop in the prices of English products and by the English boycott on machinery exports. Moreover, import capacity became minimal, and under the circumstances, promoting industrialization meant simply "to attempt the impossible in a country that totally lacked a technical basis".

The comparison between American and Brazilian economies is an expository artifice skillfully employed by Furtado to reinforce the characterization of the evolution of Brazil's underdeveloped economic structure. But this characterization rests essentially on the two other methodological procedures we have previously referred to, i.e., the description of the determinants of monetary income expansion and contraction on the basis of the country's export sectors and, in close connection with it, the identification of

the establishment of Brazil's subsistence sector.

In effect, the chapters dealing with the slave-based "tropical agriculture" and "mining" economy, as well as the "transitional economy into a wage labor system", with which Furtado covers over three centuries of Brazil's historical evolution, are essentially guided by a combination of these two questions. Let us make a brief review of the form of presentation of these distinct parts of the book, starting from the one concerning sugar-based economy.

One of the outstanding points in the analysis of the slave-based sugar-producing sector is that it had some of the conditions required to generate a dynamic economic development. In essence, it counted on abundant land availability and a high profitability in export activities. However, export revenues were strongly concentrated in the class of sugar-mill owners. Moreover, they reverted entirely to foreign countries either through imports or through their partial withholding by non-resident entrepreneurs who controlled a share of the domestic production. According to Furtado, the domestic monetary income created in slave-based economies was virtually nil. Therefore, there was "no possibility whatsoever that growth based on foreign stimuli might generate a self-propelling developmental process". Although one could observe a fast populational growth through the process of occupation of vast territories promoted by the expansion of sugar-producing activities, "the mechanism of the economy, which did not allow for a direct articulation between production and consumption systems" offset the advantages of that demographic growth as a dynamic element in economic development.<sup>59</sup>

Furtado's analysis does not exhaust itself in this idea of a limit to the generation of a cumulative income flow. It is extended to account for the specific manner in which northeastern economy accommodated crises in the exports sector. His basic idea was that economies based on slave labor react-

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(59) Furtado, C., Formação econômica..., op. cit., p. 52.

ed to crises distinctly from capitalist wage labor economies. In the former, given the reduction in foreign demand, it was not worthwhile for entrepreneurs to reduce the use of the productive capacity as their costs covered almost exclusively fixed expenditures. The fall in the productive capacity came about very slowly, given that in view of the fall in export prices entrepreneurs were unable to face the replacement costs of labor and imported equipment. The conclusion drawn by Furtado is that the export sector was in a position to preserve its structure even in the event of such large proportion crises as the one that affected sugar-based economy when the sugar market was disrupted, in the seventeenth century, by competition from the Antille Islands. He stresses that "in fact, sugar-based economy in the Brazilian northeast resisted for over three centuries to the most prolonged depressions and managed to recover whenever foreign market conditions allowed it to do so, without suffering any significant structural changes".<sup>60</sup>

The explanation for the preservation of the sugar sector's structure is one of the elements employed by Furtado to describe what he calls the "northeastern economic complex". This is composed by sugar-based economy and one of its "projections", viz., livestock breeding. The latter activity, established to cater to the demand for both meat and traction/transportation animals for the sugar sector, was soon to be displaced from the area of sugar cane plantations into the hinterlands. It therefore settled itself as an activity that depended upon sugar-based economy but was clearly separated from it. It also had some entirely distinct characteristics. In essence, it was characterized by a much lower productivity level to which there corresponded a very reduced degree of specialization and commercialization, as well as a minute monetary income. In "livestock-based economy as a whole" there prevailed a type of production that was linked to the population's own subsistence, as the latter grew very rapidly while occupying the northeastern hinterlands.

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(60) Furtado, C., Formação econômica..., op.cit., p. 53.



The slow process of retraction in sugar-based activities, as well as demographic growth itself, accounted for an increase in the relative importance of the activity that had the lowest productivity in the northeastern economic complex. The reduction in the demand for livestock-based products by the retracting exports sector entailed a reduction in the profitability of breeding activities, though it did not affect its expansion significantly. Unlike the case of sugar-cane plantations, "capital" replacement and expansion were achieved simply by the incorporation of new areas of land and free labor, i.e., no monetary expenses were incurred in the acquisition of slaves or imported equipment. The consequence of the retraction of demand in the sugar-based sector was that the expansion process of livestock-based economy was carried out through an increase in the share of the labor force engaged in mere subsistence activities and a reduction in the system's average productivity:

"There is every indication that in the long period ranging from the last quarter of the seventeenth century up to the early nineteenth century, northeastern economy underwent a slow atrophying process, in the sense that its population's real per capita income decreased century after century".<sup>61</sup>

"The expansion of northeastern economy during this long period ultimately consisted of a process of economic involution: the high productivity sector began to lose its relative importance while the livestock-based sector's productivity declined as it grew increasingly larger".<sup>62</sup>

It is important to note that Furtado drew from the foregoing statements a conclusion that is of major significance for his characterization of Brazilian underdevelopment. According to him, the forms assumed by the two systems of northeastern economy — the sugar- and livestock-based sectors — in the slow decaying process initiated in the second half of the seventeenth

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(61) Furtado, C., Formação econômica..., op.cit., p. 63.

(62) Idem, p. 64.

century are essential elements in the establishment of what was to become Brazilian economy in the twentieth century.<sup>63</sup>

In Furtado's book, the determination of the establishment of underdevelopment proceeds through an examination of slave-based mining economy. The analytical procedure is identical to that adopted in the chapters concerning sugar-based economy. Furtado offers an explanation about the determinants of territorial occupation and of the establishment of a vast subsistence economy in the country's central-southern region, and relates this account to the explanation of the establishment and decline of its dynamic center in the colonial era, viz., mining economy.

He claims that, unlike the case of sugar-based economy, mining activities were preceded by a rudimentary livestock-breeding structure spread throughout different regions of the central-southern area. The population in those areas was extremely scarce. According to Furtado, the advent of mining in the eighteenth century had two important effects upon the colony's economic structure. First, the immigrating population of European descent became ten times larger in that century. Second, the characteristics of the mining enterprise were such that shortly after its implementation in a given region, marked supply difficulties were generated. There was a rise in food prices and in the price of animals used for transportation purposes in neighboring areas, as a "mechanism of radiating the economic benefits of mining". Moreover, the search for livestock for slaughter and traction, which was largely superior to that observed in sugar-based economy, had started a cycle of prosperity for more remote breeding areas. Thanks to this effect upon livestock breeding, mining had promoted a whole network of economic integration in the country's central-southern region.

According to Furtado, the market established in the slave-based mining region was superior in absolute terms to that of the sugar region. For, al-

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(63) Furtado, C., Formação econômica..., op. cit., p. 61.

though the average income was lower, it was also less concentrated, as the share of free population was much larger and gathered in urban centers. Even so, "endogenous development" was "virtually nil". Furtado claims that this could not be accounted for merely by the higher profitability of mining investments, which tended to attract what capital was available, or by the metropolis' ban on manufacturing activities. The major cause for this must have been "immigrants' own technical inability to initiate manufacturing activities on an appreciable scale".<sup>64</sup>

The decline in gold production must needs bring into that region, devoid as it was of permanent forms of economic activity other than subsistence agriculture, a "fast and general decay":

"A few decades sufficed for the entire mining-based economy to collapse, there being a decay in urban centers and a dispersion of a large number of their inhabitants in subsistence economy, which was spread over a vast area where communications were difficult, thereby isolating small groups from one another. This relatively large population was to find room to grow within a subsistence regime, transforming itself into one of the country's major demographic centers. In this case, as in that of livestock-based economy in the northeast, demographic expansion was to prolong itself in a process that caused an atrophy in monetary economy".<sup>65</sup>

In Furtado's perspective, stagnation had been the one significant aspect of Brazilian history from the end of the mining cycle up to the mid-nineteenth century. The way out of it was to be found in the coffee upsurge:

"By the end of the third quarter of the nineteenth century, the terms of the Brazilian economic problem had been substantially changed. A product had appeared that was to allow the country to be reintegrated into the expanding currents of world trade; once its gestational stage was completed, coffee-based economy was in a position to self-finance its subsequent outstanding expansion, and a new ruling class had appeared to lead the great expansion of coffee-based economy.

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(64) Furtado, C., Formação econômica..., op. cit., p. 79.

(65) Idem, p. 85.

The problem of labor, however, still remained to be solved."<sup>66</sup>

As in the chapters devoted to slave-based sugar and mining economies, Furtado's study of coffee-based economy concentrates on the analysis of the distribution of the expanding population between subsistence and export activities, as well as on the examination of the income flow originating in the dynamic sector of the period.

The first of the foregoing lines of analysis is examined along with the problem that "still remained to be solved" to make coffee expansion feasible, i.e., labor. The solution, in Furtado's opinion, was given by European immigrants, who were directed mainly to coffee plantations in the state of São Paulo in a flow organized by the country's new ruling class — coffee sector entrepreneurs.

Two important questions are raised by Furtado in regard to this immigration. First, it could be interpreted as a sign of labor shortage in the country, thus overthrowing the thesis of the existence of a vast subsistence economy, which is essential for the structuralist conceptualization of underdevelopment. Secondly, immigration posed a question as to what would have happened to slave labor turned free after the abolition: had the latter aggravated the "labor problem"?

Furtado's reply to the first question is that, save for a few exceptions, "subsistence economy in general was so widespread that the recruiting of labor within it was a rather difficult task, demanding a large mobilization of resources".<sup>67</sup> Moreover, such type of recruitment would have to count on the support of large landholders in the areas where subsistence economy prevailed — a co-operation that "could hardly be secured, for what was at stake was an entire way of living, a style of social organization, and a structure of political power".<sup>68</sup>

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(66) Furtado, C., Formação econômica..., op. cit., p. 116.

(67) Idem, p. 121.

(68) Ibid.

Therefore, when the possibility arose to expand coffee production significantly during the second half of the nineteenth century, there co-existed in the country a vast potential reserve of labor in subsistence economy — increased by an urban unengaged population that was hardly inclined to go back to the countryside — and a scarcity of hands in coffee plantations. In Furtado's view, the abolition of slavery had indeed contributed to aggravate the problem.

Already in the first half of the nineteenth century, regardless of the continuation of slave imports, slave labor had been reduced in view of slaves' high mortality rates. According to Furtado, the abolition of the slave labor regime had different consequences in the northeast and center-south regions. In the northeastern area of sugar plantations, the scarcity of land, combined with a reduced pressure of the demand for labor resulting from the fall in sugar exports, had caused the newly freed workers to be maintained within the sugar complex itself. In the south, slaves concentrated chiefly in pioneer coffee-plantation areas — the present states of Rio de Janeiro and Minas Gerais. The abolition came at about the same time as the displacement of production to the more fertile areas of land in the state of São Paulo. However, instead of moving into that new region, the newly freed labor force turned essentially to subsistence activities, a situation that was made possible by the abundant land availability. In those cases where workers remained in coffee plantations under the wage labor regime, they were able to receive a higher remuneration for their work, given the conditions of scarcity determined by the collapse of the former labor system. In Furtado's view, however, those wage raises entailed a fall in productivity as they induced former slaves to reduce their working hours.

In other words, according to Furtado, the abolition of slave labor resulted, on the one hand, in an expansion of subsistence economy and a reduction of labor productivity, and on the other, it led to an aggravation of the relative labor shortage. The latter was offset by the recruitment of

European labor by the new coffee oligarchy, which was heartily mobilized toward catering to its own interests. Its conscious option for the line that offered the least resistance — that of European immigration, instead of domestic migrations, as in the tragic transfer of northeasterners into the Amazon region — left subsistence economy intact to outlive the coffee upsurge.

This interpretation had a decisive weight in Furtado's formulation of the problem of Brazilian underdevelopment. His analysis even seems to suggest that, had the coffee upsurge begun at the time mining started to decay, in the late seventeenth century, Brazilian economy would have managed to avoid its relative delay and perhaps underdevelopment itself:

"This delay was caused not by the pace of development in the last hundred years, which seems to have been fairly intense, but rather by the retrocess that took place in the former three quarters of a century. Brazil being unable to integrate the expanding currents of world trade during that stage of fast transformations in the economic structures of the more advanced countries, some profound dissimilarities were created between its economic system and that of those countries. We shall have to revert to these dissimilarities in analyzing the specific underdevelopment problems faced by Brazilian economy at the moment".<sup>69</sup>

In Furtado's system of thought, the characteristics of underdevelopment that describe these "dissimilarities" and allow for an identification of the "specific problems of underdevelopment" are, as in all of the structuralist school, technological duality (i.e., the co-existence of modern and subsistence sectors) and the small diversification of the productive apparatus. What his analysis suggests is, that were it not for the lag of three quarters of a century, subsistence economy and its army of underemployed labor probably wouldn't have been established in the country; and also that the raise in productivity entailed by the coffee export upsurge would consequently have implied wage raises and the establishment of a domestic market.

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(69) Furtado, C., Formação econômica..., p. 150.

The result would then have been a diversified productive structure and the diffusion of high technological standards throughout the economic structure, as in the U.S.A.

The passage formerly quoted closes the part of Furtado's book describing the historical determinants of the evolution of the Brazilian underdeveloped structure. Rather significantly, the same passage implicitly joins the three elements that compose Furtado's research methodology about this evolution. Brazil's relative lag in relation to the U.S.A. is due to its "non-integration" into the "expanding currents of world trade" at the right moment. Its profound "dissimilarities" in relation to advanced countries embrace the technological duality caused by the establishment of a vast subsistence economy and the small diversification of the productive apparatus, given the non-existence of favorable conditions for the generation of an internal cumulative production and consumption process.

c. The analysis of coffee expansion and of the transition into industry in the Brazilian underdeveloped structure (1850-1950)

The second part of Formação econômica do Brasil examines the developmental process that was to take place, within this structural framework, between the mid-nineteenth and mid-twentieth centuries, i.e., in the period of expansion of coffee-based economy and transition into an industrial economy. This part contrasts with the first one in two analytical aspects.

In the first place, the point in this part of Furtado's work is no longer to prove that the historical evolution of Brazilian economy has led to the establishment of an underdeveloped economic structure, but rather to proceed into an economic analysis that may be suitable to the structural framework formerly described. This is why, in the second part of the book, Furtado's approach becomes more properly structuralist. The industrialization process is then viewed as a problematic one, in that it goes on at a very fast speed in underdeveloped economic structures.

Secondly, it is no longer a question of describing the conditions that have prevented the establishment of a domestic market, i.e., of making a Keynesian analysis "by the negative". On the contrary, the problem becomes that of showing which conditions have determined the modality of income expansion capable of making the subsequent industrialization process feasible.

In short, the book's "Keynesian-structuralist" approach becomes more evident. The analysis centers around the identification of the mechanisms of income level expansion and the structural imbalances generated in the process. In order not to prolong our current outline any further, we shall now proceed to a very succinct summary of the main component aspects of Furtado's analysis.

The starting point of the second part of the book under examination is the characterization of the meaning of the advent of wage labor, "a fact of the greatest relevance that took place in Brazilian economy in the last quarter of the nineteenth century".<sup>70</sup> From then onwards, the dynamics of the economic system was to become distinct from that prevailing in the past. Given the abundance of labor and under-utilized land, the income flow created by the exports sector began to radiate throughout the remainder of the industry, thereby entailing local production and commercialization of a number of consumption goods, as well as a better utilization of the available productive factors.

Under the new conditions, the mass of wages paid in the export sector became "the nucleus of a domestic market economy". The increase in the economic system's productivity would no longer be limited to a transfer of labor from the subsistence sector into the exports sector, but would also include its absorption into the new activities connected with the domestic market. This rise in productivity, however, was not reflected in a raise in

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(70) Furtado, C., Formação econômica..., op. cit., p. 151.



real wages, given the availability of surplus labor in the subsistence sector. But it did imply a raise in the average remuneration, as there was an increase in the size of the population engaged in monetary sectors — of both exports and the domestic market — in relation to subsistence economy, so that "the mass of monetary sectors, which is the basis of the domestic market, increased faster than the overall production".<sup>71</sup>

In A economia brasileira, Furtado had emphasized the idea that the downward pressure on real wages stemming from subsistence economy worked as a restrictive factor in the establishment of a domestic market. In Formação econômica do Brasil, he abandoned this line of argumentation and preserved only two other considerations associated to the non-elevation of wages. The first one consists of the observation that the conditions which favored entrepreneurs' appropriation of all benefits deriving from the rise in export product prices entailed a faster capital accumulation, and therefore a higher absorption of labor from the subsistence sector. The second one consists of a Prebischian assessment of the effects of labor abundance on the country's trade relations. In other words, it consists of the idea that should wages absorb part of the increase in profitability attained in the cyclic boom period, there would be a better possibility of defending the economy against the fall in prices and the deterioration in the terms of trade during depression phases. As wages might be more resistant to compression than profits in the depressive phase, one would have the means to avoid the secular deterioration in the terms of trade.

Furtado's subsequent point of analysis is that, since the pressure of cyclic drops impinges upon profits, the concentration of income produced in the cyclic boom period could be expected to show a reduction in the depressive stage. In his view, however, Brazilian entrepreneurs had succeeded in transferring that pressure onto other sectors of the collectivity via the mecha-

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(71) Furtado, C., Formação econômica..., op. cit., p. 153.

nism of exchange rate devaluations.

This was, in Furtado's opinion, the adjustment mechanism for the cyclic concentration that is typical of dependent economies. In mature economies, the cyclic depressive phase is characterized by a contraction in investments, which entails an income level reduction simultaneously to a reduction in the import level. In dependent economies, on the contrary, there would be a lag between the contraction in the volume of exports and the reduction in imports. Moreover, there would also be a deterioration in the terms of trade and evasion of capital. The inevitable result would be an acute disequilibrium in the balance of payments, it being easy to foresee "the huge metal reserves that would be required for the full operation of the gold standard in an economy such as that of coffee's hey-day in Brazil".<sup>72</sup> Alternatively, there was no other way out than effecting exchange rate devaluations.

The latter were, according to Furtado, a mechanism for "socializing losses" incurred in the cyclic contraction of exports. The final result, besides the maintenance of the level of income concentration, was the higher capacity to resist crisis in the economy as a whole. By counting on exchange rate devaluations, entrepreneurs could maintain their output levels regardless of any crisis. This way, "the fall in the employment level could be avoided and the secondary effects of the crisis were restricted".<sup>73</sup>

Another basic mechanism pointed out by Furtado in the coffee sector were the systems of coffee valorization enforced after the Taubaté Covenant, signed in 1907, as a means of mitigating the effects of the overproduction crisis on product prices. This policy of defending the activity's profitability, however, had brought about two negative consequences. First, as it was not accompanied by schemes designed to discourage investments in that sector, it allowed planting to keep growing, thereby adding to the overproduction

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(72) Furtado, C., Formação econômica..., op. cit., p. 159.

(73) Idem, p. 167.

problem and postponing it to the future. Secondly, this problem was aggravated because the high price policy eventually fostered coffee production elsewhere in the world.

Furtado claimed that upon the outbreak of the 1929 crisis, the coffee sector was weakened by an unprecedented overproduction crisis that entailed a dramatic reduction in the product's price. However, the output level and income in the coffee sector were not deeply affected, first of all, because the marked exchange rate devaluation then enforced allowed for the socialization of the losses incurred in the fall of the product's international price; and secondly, because a policy of withholding and destroying part of the coffee crops was put into effect.

The major consequence of this double mechanism of defending income in the coffee sector was not only the maintenance of the employment level in the export sector, but also in productive sectors linked to the domestic market. In particular, the policy of destroying coffee surplus was the equivalent of "a true program of national furtherance", an unconscious practice of a "more far-reaching anti-cyclic policy than had ever been as much as recommended in any industrialized country".<sup>74</sup>

By means of this analysis Furtado finally reached his classical account of the transformation of Brazil's export-oriented agricultural economy into an industrial economy — a transformation whose turning point occurred in the decade of 1930. Furtado's interpretation rests essentially on the idea that, simultaneously with the maintenance of income levels and domestic demand, there was a significant drop in the value of exports, thus entailing a marked exchange rate devaluation and a sudden fall in the import rate, which was reduced from 14 to 8% of the gross territorial income.

This is said to have determined a pronounced expansion in domestic supply so as to substitute imports, which had become prohibitive given the

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(74) Furtado, C., Formação econômica..., op. cit., p. 192.

fall in Brazilian import capacity. This is where Furtado spots the moment of the "displacement of the dynamic center" from export-gearred agricultural activities to domestic market activities. The latter's growth was propelled, not only by their higher profitability, but also because they attracted "capital that had been accumulated in or was taken away from the exports sector". They initially grew on the basis of a more intensive use of the previously installed capacity, added to low-price imports of the equipment that had become superfluous in the advanced countries then undergoing economic crises. The industrial expansion of the 1930s succeeded even in attaining a domestic production of part of the capital goods it required. The industrialization process was to resume an accelerated pace some years after the end of World War II. An important stimulating factor in this respect was the twofold protection provided by the fixed exchange rate policy, combined with the selective import control enforced as of 1947 as a result of a decision following the foreign account disequilibrium that had been entailed by the striking evasion of foreign credits in the immediate post-war period. In the first place, the national consumption products industry was protected against foreign competition. Second and most important, the joint effect of internal inflation (which lowered import costs) and the considerable improvement in the terms of trade which took place in those years enabled a wide expansion in the import of capital goods and industrial raw materials. Thus, the raise in productivity associated to the improvement in the terms of trade, instead of transforming itself into a higher income for the export class, was capitalized in the industrial sector.

According to Furtado, a distinctive characteristic of the industrialization process thus triggered by the international crisis of the 1930s was its structural tendency toward foreign imbalances and inflation. The initial stimulus for industrial expansion, i.e., the inadequacy of import capacity, was to become its basic obstacle as well. By 1947, import capacity was apparently the same as in 1929, although the national income had increased by

about 50%. The industrial expansion then taking place within the scarcely diversified productive structure that characterized Brazilian underdevelopment could thus be expected to lead necessarily to foreign account imbalances and strong inflationary pressures. Such is Furtado's basic interpretation of the recurring foreign account disequilibrium and continuous inflation verified in the period of accelerated industrialization starting in the late 1940s.

Already during the wartime some high inflation rates had been observed. Furtado assumes that one of the reasons for them must have been the inability to sterilize export revenues, which grew at a fast pace and could not revert to imports, given the peculiar international conditions prevailing in those years. To these revenues were added some large public deficits which put an extra pressure on a domestic supply that had already been markedly inelastic by the late 1930s.

Some years after the end of the world conflict, in the period when the terms of trade were improving in regard to national economy, the increased revenues from the exports sector again faced a shortage in supply, this time rendered inelastic thanks to the selective imports policy. Furtado argues that under such circumstances, it would be erroneous to assume that the banking system could have been the major factor in inflation. In his opinion, what happens in such situations is simply that "the increase in monetary income being held back in the domestic sector and thereby putting pressure on the prices of manufactured items, food products, and services, the banking system provides the payment means required for price rises to be diffused".<sup>75</sup>

The inflationary problem resulting from the situation of double supply rigidity, both foreign and domestic, was additionally complicated, in Furtado's view, by the fact that the rise in export prices had the effect of diverting resources from domestic market-oriented agriculture into export-oriented agriculture. This is said to have determined a reduction in the

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(75) Furtado, C., Formação econômica..., op.cit., p. 230.

supply of food products precisely at a time when consumers' income was increasing. This argumentation led Furtado to the expressive passage with which he closes the chapter analyzing the Brazilian inflationary process:

"There thus exists within the primary sector of Brazilian economy a mechanism enhancing imbalances that originate abroad. This observation again evinces the enormous difficulties faced by an economy like the Brazilian one in attempting to attain a minimum stability in its overall price level. To aim to reach that stability without taking into account the nature and dimensions of the problem can be totally self-defeating from the point of view of economic growth. And in any economy with large potentialities and a low developmental level, the last thing to sacrifice should be the pace of its development".<sup>76</sup>

Such developmentalist message is one of the rare points in Furtado's book where he expresses his views regarding the economic policies he deems more appropriate for the national economic development process. This question was dealt with by him in other texts, which we have already examined in the preceding sections.

#### 4. Socialist Thought

##### 4.1. Introduction: The Politics of the Brazilian Communist Party as a Determinant of Economic Analysis

Developmentalism, as per the definition adopted in the present work, was the ideology of overcoming Brazilian poverty and backwardness by means of planned industrialization. It thus corresponded to the ideology underlying the economic project of establishing a modern industrial capitalism in the country. Developmentalists differed from one another, as we have seen, in their views regarding the question of foreign capital and the desired degree of state intervention; in the treatment given to the inflationary ques-

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(76) Furtado, C., Formação econômica..., op.cit., p. 232.

tion; in their stronger or weaker reformistic inclination, and so forth. A common proposal, however, was their goal of building up a capitalist structure similar to that found in advanced countries. They might even, as in the case of some nationalists, have socialist political inclinations along the leftist line of European social-democrats or the line of democratic socialism independent from Soviet guidance, and might, for this reason, cherish industrial development as a stage toward later advances to be made by means of pacific political struggles within the framework of the prevailing system. As economists, however, they organized their speeches, analyses and propositions within the limits of their goal of transforming the export-oriented primary products economy into an industrial economy via capitalism.

To the left of the foregoing developmentalists there was a strand of thought whose economic reflections were conducted from the perspective of a Brazilian revolution or transition into socialism. To this current, which was composed of intellectuals linked to the Socialist Party — and as of the early 1960s, also composed of intellectual dissidents within the Party —, we have assigned the designation of "socialist current".

The contrast between socialists and nationalist developmentalists in regard to economic thought is illuminating. Just as the latter, socialists advocated industrialization with ample state intervention as a means of attaining the "development of the productive forces", and they likewise defended state investments in basic economic sectors, as well as control over foreign capital. However, socialists distinguished themselves from nationalist developmentalists, in their analysis of Brazilian economy, by the fact that all of their reflections were based on the revolutionary perspective that was being discussed and defined by the Brazilian Communist Party. This distinction already appeared, for instance, in state investment proposals. Whereas developmentalists merely advocated the need for national control over the basic foundations of Brazilian industrialization, without any further political discussions, the question presented itself to socialists as part

of the discussion about the historical stage of transition into socialism and about the political views that would be suitable to promote this transition. In fact, and keeping in mind the relative suspicion with which the heads of the Brazilian Communist Party looked upon its intelligentsia, all of the socialist current's economic reflections were subordinated to and even overdetermined by the Party's internal discussions about its revolutionary tactics and platform of political struggles. This applied to all economic questions in debate, whether they concerned foreign capital and state intervention, inflation and the balance of payments, the land reform, or any of the other topics of political economy at that time.

This is why the characterization of the socialist current's economic thought must start off from an assessment of the general aspects of the Communist Party's evolution within the period under examination. It further requires a knowledge of the economic content of the different political formulations corresponding to the various stages of that evolution. This dimension cannot be wanting in the characterization of the socialist current's thought as, unlike the members of other currents, its components did approach the question of the feasibility of the development of nationalist productive forces via capitalism as one of the controversial points in the debate about the historical stage of the Brazilian revolution.

The discussions about the revolutionary process had historical materialism as their theoretical foundation. The Marxian conception that mankind's historical evolution proceeds through a well-defined sequence of modes of production and that this movement evolves through class struggles dominated socialist analyses in the political field, thereby determining the general outline of their economic analyses. In fact, where socialists are concerned, it is hard to talk about an economic theory underlying their analyses. They refused to use the prevailing economic theory to interpret Brazilian reality and did so with greater radicalism than did structuralists, who merely advocated its selective use and proper adaptation to the case of peripheral coun-



tries, as well as the right to formulate and employ their own theories. There was no analytical effort on the part of socialists comparable to that made by structuralists. A proof of this is, that like their fellow party members in the remainder of Latin America, they missed the opportunity to discuss the thesis of a deterioration in the terms of trade — which they both accepted and spread — from the perspective of the Marxian theory of value, as was later done by Arguiri Emmanuel.

The use of Marxian economy itself was limited. Caio Prado Jr. was the major intellectual who sought to diffuse Marxian analysis in Brazil, but his texts written along those lines are theoretical and didactic in nature, i.e., they are not applied to the analysis of Brazilian economy.<sup>1</sup>

The very nature of the questions discussed by socialists and other Brazilian economists imposed this limitation. In socialist writings one does find Marxian concepts like that of surplus, or capital concentration and centralization. The context within which they are used, however, bears only a remote relation to the analytical scope that is typical of the usage of Marxian economic theory, i.e., the scope of the economic analysis of capital accumulation and of the contradictions generated by this accumulation. Even when circumstances were particularly favorable to the employment of Marxian theoretical tools, as in the crisis of the early 1960s, only Ignácio Rangel — an economist who did not actually belong in the socialist current of thought — analyzed the situation as portraying a "realization crisis". Socialists' identification of contradictions in the Brazilian developmental process — such as land monopoly and imperialism — was inspired not by Marxian economy proper, but rather by the method of historical materialism. It is in this sense that this current's economic thought may be termed Marxian.

The major issue dominating socialist thought was that of understand-

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(1) Caio Prado Jr.'s major work in this field is Esboço dos fundamentos da teoria econômica, São Paulo, Editora Brasiliense, 1957.

ing the revolutionary stage the country was going through, as well as defining the platform of struggles suitable for that stage. According to the different conjunctures of the time, they used terms like "national-democratic, anti-feudal and anti-imperialistic revolution", or, in periods of greater liberalism, "bourgeois-democratic, anti-feudal and anti-imperialistic revolution". The exact political meaning of concepts like "democratic" or "bourgeois-democratic", in terms of the PCB's understanding of the society's ideal political organization, is a theme that would lead into a discussion that is beyond the scope of the present work. It would be necessary, for instance, to study the Party's views on the question of democratic institutionalism, on how the democracy they anticipated would confine itself within the limits of a state ruled by the dictatorship of the proletariat through one only party, and so forth. What really matters to us is to stress that socialist formulations, even in the years of greater sectarianism (as in the early 1950s), were fraught with the idea of a stage in the bourgeois relations of production that represented a transitional stage into socialism. This explains why, in those stages, the PCB avoided stating that economic development via capitalist means would in principle be unfeasible, and why it abstained from making any considerations about the economic system to be implemented by the Revolution advocated by its members. It also explains why "stageism" features even in writings dating from the most sectarian phases preaching an armed revolution, as in a text of 1949 where L. C. Prestes proposes a "revolution that may be democratic in its form and bourgeois in its economic and social content".<sup>2</sup>

The problem of the feasibility of Brazilian economic development via capitalism must surely have been viewed with scepticism within the PCB in its most sectarian phases. If so, we may suppose that the reason why the Party did not dismiss the idea of the need for a bourgeois stage may have been that

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(2) Prestes, L.C., "Informe político da Comissão Executiva Nacional do PCB", Revista Problemas, 1949, p. 76.

it could not, on theoretical grounds, stand up to the orthodoxy of historical materialism. By failing to confront this question, the Party conveyed a vague acceptance of the idea of a bourgeois stage, less perhaps out of any firm belief than an inability to abandon the more conventional theorization.

In short, the only more permanent belief within the PCB was that this was a stage to overcome feudal relations in the countryside, as well as the neo-colonial relations with which imperialism subjugated the Brazilian nation. This conception remained immune to PCB's variations concerning the definition of alliances among social classes and the forms of struggle to pursue. Other than that, although apparently devoid of an equally firm belief, there remained the understanding that until a mature stage could be reached for a full transition into socialism, the economic content of the current stage could not help being bourgeois, though strongly oriented toward state intervention — which was viewed as an instrument of the anti-imperialistic struggle — and social reforms.

In effect, socialists' reasoning was always the same in every phase: Brazilian society was said to be going through a stage of overcoming the colonial export-oriented economy and making a transition into a modern industrial economy. In this respect, socialists' interpretation was identical to that of developmentalists, save for two basic aspects: first, that the transition was seen as a necessary stage in the struggle for the implementation of socialism; and second, that in order to assure it, two contradictions inherited from the previous stage should be radically eliminated, viz., land monopoly (internal contradiction) and imperialism (external contradiction). Therefore, the socialist current's economic analysis — which was deeply committed, as we have seen, with PCB's political struggles — had as both reference and stimulus the struggle for the land reform and the suppression of imperialism.

As might be expected, socialist economic thought was profoundly dependent upon PCB's own evolution. In brief and schematic form we may distinguish four phases in that evolution between 1945 and 1964, all of which had

different effects on their thinking:

i. The period 1945-1947

The first phase corresponds to the years 1945-1947, when the PCB enjoyed its ephemeral biennium of legality. It had just gone through a long and painful period of unyielding political persecution following the aborted coup attempted by the National Liberating Alliance (ALN) in 1933, which lasted throughout the dictatorship of the "Estado Novo". In 1935, the Brazilian revolution was defined by ALN (which was controlled by the PCB) as being anti-feudal and anti-imperialistic, its purpose being the implementation of a "bourgeois democracy" via armed combats. Amidst the general democratization movement of the immediate post-war period, the PCB became a mass party overnight, counting on about two-hundred thousand members and 10% of national voters. It maintained its diagnosis of a historical stage of a "democratic-bourgeois, anti-feudal and anti-imperialistic revolution", but this time pursuing a pacific course symbolized by the expression "National Union". In those years, the PCB advocated the cause of a struggle for the plenitude of bourgeois democracy and the policy of a "pacific development" with which Stalin guided the Soviet position in 1945-1947. Thus, the USSR's pacifist international policies found a perfect match in PCB's internal platform, the party being an unconditional ally of the communist parties of the Soviet Union. The passage below has been quoted from a speech made by Prestes in 1945:

"In 1935, through the National Liberating Alliance, we have attempted to solve such problems in a revolutionary way, to face integralistic demagoguery with the settlement of the major problems in the democratic-bourgeois revolution — an agrarian and anti-imperialistic revolution in content — as we already knew that, unless we stroke a decisive blow against the reactionary and colonizing foreign capital, and unless we put the land under the control of the landless mass of peasants, no step could be taken toward the country's progress. We were defeated, and in the last ten years' fight against communism, what has indeed been done with the use of loathsome police weapons, with those of the

National Security Court, and with those of yester's reactionary Department of Political Investigations — which was surely very different from the one we now have and which expresses the people's voice — was to hinder national progress and deceive the nation with a fictitious prosperity that was based on inflation and luxurious public works created to put up a front, with the sole exception, perhaps, of the beginning of Volta Redonda's steelmill construction.

But the situation is changed nowadays. The war has precipitated a crisis and put our population's large material and moral forces under a strain. With surprising swiftness to some, our political situation keeps changing and we take some decisive steps towards democracy, so that Brazil may soon catch up with the most advanced capitalist countries thanks to its political regime. And in view of that, the dominant classes themselves, through the authoritative word of the most prestigious heads of their traditional organizations, are now showing that they do realize the deep and truthful meaning of Euclides da Cunha's dilemma — to progress or to perish. To perish or to catch up with and surpass the most advanced capitalist countries, not only in terms of the political regime but also economically".<sup>3</sup>

While in its period of legality, the PCB published a number of journals, but none of them devoted to the publication of studies and in-depth articles that might stimulate the presentation of economic analyses from the socialist perspective. In the economic area, the major intellectual highlight was Caio Prado Jr.'s publication of his História econômica do Brasil in 1945. With this work, its author conducted the historical perspective, dear as it was to socialists, onto an actual level of research into Brazilian economic evolution. Until that time, the only important study on Brazilian economic history had been Roberto Simonsen's, which confined itself to the colonial era.<sup>4</sup>

Caio Prado Jr. bridged that wide gap by carrying out an analysis

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(3) Reprinted in Vinhas, M., O Partidão, São Paulo, Hucitec, 1982, p. 103.

(4) Simonsen, R., História econômica do Brasil (1500-1820), São Paulo, Cia. Editora Nacional.

of four and a half centuries of Brazilian economic evolution that, to this day, as stated by historian Francisco Iglesias, stands out as "one of the three pillars of Brazilian historiography", along with Simonsen's and Furtado's studies.<sup>5</sup>

In Prado Jr.'s book one already finds the seal of his political stance in face of the Brazilian "historical stage". Furtado, in his structuralist analysis of economic conditions in the first few decades of the twentieth century, had stressed the dynamic elements engendered by the crisis in the export-oriented primary products sector. Prado Jr., on the other hand, examining the same crisis from his Marxian perspective, stressed the contradiction between the development of Brazilian productive forces and imperialism.

From the status of a fosterer of Brazilian material progress in the phase of primary product exports, when it had integrated national economy "into such a highly developed international system as contemporary capitalism",<sup>6</sup> imperialism became one of its major obstacles:

"In the first place, imperialism works as a powerful factor in the exploitation of national wealth; it has no other objective than to hoard in its own behalf that share of Brazilian labor surplus that comes within its reach. (...) On the other hand, imperialism's totalitarian intervention into Brazilian economy disturbs the latter's operation, subjecting it to alien factors and preventing its regular structuring on the basis of the true and deep needs of the country's population. (...) Finally, foreign capital action in Brazil operates as an element causing continuous disturbances in national finances. (...) Moreover, international capital invested in Brazil represents an important factor of imbalances in our foreign accounts, as well as a factor of their chronic deficits".<sup>7</sup>

Socialists' historical perspective during the phase of national

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(5) Iglesias, F. (ed.), Caio Prado Jr., São Paulo, Brasiliense, 1982, p. 29.

(6) Prado Jr., C., História econômica do Brasil, São Paulo, Brasiliense, 1969, p. 282.

(7) Idem, pp. 280-281.

ideological re-definition in the mid-1940s contributed largely to spread the developmentalist proposal of changing the "economic and social structure" throughout the country. The most elaborate formulation of this proposal was to be developed some years later by ECLA structuralists. In 1945, Caio Prado Jr. stated:

"In order for the transformation now under way in Brazilian economy to be successfully completed, it demands a political program of reforms and a clear awareness of the course it must follow. The conditions of maturity for the purpose are already available, but Brazilian political evolution lags far behind the economic one. (...) The crisis triggered in the last fifteen years has surely resulted in some important economic reforms. There has been a considerable expansion in the sphere of state intervention in the country's economic life, and a complex administrative machinery now controls the better part of national activities. This opens up great possibilities for the execution of a far-reaching program of economic restructuring. So far, however, these possibilities have been used only in a conservative sense. The series of measures that have led into this allegedly 'government-oriented' economy have succeeded one another without any orderliness or overall plan".<sup>8</sup>

Marxist historian Nelson Werneck Sodré expressed his views in a similar way:

"In fact, deficiencies are structural, old, and historical, and no merely contingent emergency measures will have any effect upon them. This is not to say, of course, that one should let things run their course without any interference whatever. But, without measures that are capable of affecting the essence of the problems, no results can be obtained. The tragic reality is that the national economic structure is still rather colonialist..."<sup>9</sup>

The short duration of PCB's legality phase and its subsequent isolation prevented the establishment of an intellectual climate suitable for

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(8) Prado Jr., C., História econômica..., op.cit., pp. 307-308.

(9) Werneck Sodré, N., "Pobreza", O.E.F., March 1945, p. 122.

debates with socialists' participation. This atmosphere was to be found only in the second half of the 1950s.

ii. The period 1948-1954

The second phase corresponds to the years 1948-1954, when the PCB adopted sectarian policies that isolated it considerably from Brazilian life. Two simultaneous movements led the Party to assume this new position. First, the cancellation of its legal registration, followed by the recall of its parliament members. The strong repression that accompanied those episodes and lasted until the end of Dutra's government confirmed the climate favoring a radicalization of revolutionary tactics. Secondly, a sharp turn was then taking place in international political relations. Divergences between the USSR and the USA were aggravated, and the new Soviet perspective of getting prepared for a possible "anti-imperialistic" conflict (which replaced their thesis of "pacific development") deeply affected PCB's political philosophy. The Party's increasing leftism soon did away with its growing capacity of insertion into Brazilian society. In the early 1950s, it was already far from the status of mass party it had enjoyed in the immediate post-war period.

The standard document of this phase was the August 1950 Manifesto, signed by Luiz Carlos Prestes, who had retained his office as General Secretary of the Party, albeit withdrawing into a highly secret clandestineness and isolating himself from the rest of the Party. The Manifesto preached the establishment of a National Democratic Liberating Front (FDLN). By means of armed combats to be organized by a Popular Army for National Liberation, the FDLN should install a "democratic and popular" government "to replace the current bourgeois feudal dictatorship, which is servile to imperialism, by a revolutionary government" — the fruit of a "revolutionary struggle for national liberation from imperialistic oppression, under the guidance of the proletariat".<sup>10</sup> The document said nothing about socialism, however, and abstained

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(10) Reprinted in Vinhas, M., O Partidão, op.cit., p. 153.



from making any considerations about the role to be played by capitalist accumulation in the economic system to be implemented by the revolution of the proletariat. Nevertheless, it did include three basic economic proposals that were socialist in character:

"(a) For the delivery of land to those who actually work it: confiscation of large latifundia with all movable and fixed assets existing therein, with no indemnity payment and immediate free surrender of the land, machinery, tools, animals, vehicles, etc. to landless peasants or small landholders, as well as to any other rural workers who may wish to devote themselves to agriculture. Abolition of all semi-feudal forms of land exploitation, abolition of share cropping on a 50/50 basis or on a 1/3 basis, etc.; suppression of workers' payments in the form of vouchers, and institution of mandatory cash remuneration to all workers. Immediate cancellation of all peasants' debts to the state and to banks, farmers, tradesmen, and usurers. (b) For an independent development of national economy: full nationalization of mines, waterfalls, and all public services; nationalization of banks and insurance companies, as well as of all large industrial and commercial enterprises that are monopolistic in nature or exercise a paramount influence on national economy, with or without payment of indemnifications, depending on their proprietors' position in the struggle for national liberation from imperialistic aggression; state control over foreign trade, control over large capitalists' profits, suppression of indirect taxes and institution of a strongly progressive taxation on income, and total freedom for domestic trade; state technical and financial support to land cultivation, encouragement of co-operativism, and assurance of a minimum price for small farmers' output. (c) For an immediate improvement of the working masses' standard of living: general raise in wages, including the minimum family wages, upgrading them all to the level already attained by the cost of living; institution of a mobile wage scale; payment of equal remuneration for equal work, whether performed by men, women, or underage laborers; immediate suppression of the one-hundred percent work attendance requirement; stipulation of retirement pensions and allowances that may attend to the vital needs of workers and their families, as well as assistance to the unemployed; democratization of social legislation,

widening its scope and extending it to rural wage laborers; provision of social assistance by employers and the state; supervision of laborers' rights and of social work administration by workers themselves through the mediation of their unions; immediate improvement of soldiers' and sailors' economic conditions".<sup>11</sup>

It must be noted that, notwithstanding the radicalism of the foregoing propositions in terms of the relative political power of the popular classes, Prestes did not propose the suppression of private property of the means of production, but merely defended the confiscation of latifundia and monopolistic organizations, as well as control over the profits accrued by large capitalists. The major doubt that emerges upon examining the 1950 Program is, why did Prestes imagine that a successful revolution conducted under the proletariat's "hegemony" or "guidance" would maintain capitalist accumulation? The answer lies in the contradiction that seems to have accompanied the Communist Party in its most leftist phases. On the one hand, there seemed to be no belief in the feasibility of Brazilian development via capitalist ways. On the other, the Party seemed enslaved to the thesis of a historical need to go through a "democratic-bourgeois" stage, a fact that prevented the dismissal of capitalist accumulation as a provisional means of development.

This contradiction becomes even clearer in the last representative document produced in the "sectarian" phase — the Program for the Fourth Congress of the PCB in 1954. As in the August Manifesto, its central proposition was a "democratic and popular revolution". Although participation in the electoral process and other pacific forms of political action were accepted, the prospect of armed combats was maintained. Likewise, the idea of the labor class' hegemony in the revolution still held good. At the same time, however, the Program proposed:

"Freedom of initiative for industrialists and domestic trade, safeguarding the interests of national economy and of the people's

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(11) Reprinted in Vinhas, M., O Partido, op.cit., pp. 153-154.

welfare. There shall be no confiscation of capital and companies belonging to the Brazilian bourgeoisie. There shall be confiscation of the capital and companies belonging to those large capitalists who betray national interests and become allies to American imperialists.

Safeguarding of national industry. Ban on the import of products that may be detrimental to the existing industries or obstruct the creation of new ones. Ample facilitation for the acquisition of equipment and raw materials required for the development of national economy. Free development of the peace industry".<sup>12</sup>

Thus, in the 1954 Program one can already detect the first signs of the proposal which, in subsequent years, was to allow for a re-establishment of coherence between the thesis of the "democratic-bourgeois" stage and the Party's political platform, viz., the proposed alliance with the national bourgeoisie. In a document presented at the Fourth Congress, Prestes made the following analysis:

"The Brazilian bourgeoisie is currently divided into two distinct groups. One of them is formed by large capitalists who are closely connected with latifundia-owners and who attend directly to the interests of some group or other of foreign monopolists, particularly American ones. They represent a negligible minority in terms of their numbers, but a powerful one.

The second group is composed of the rest of the Brazilian bourgeoisie, aptly named national bourgeoisie by the Program, reflecting mostly the interests of national industry. This part of Brazilian bourgeoisie (the national bourgeoisie) obviously needs an expansion of the domestic market and protection against competition by imported products; its interests are affected by imperialistic oppression, and it competes with imperialistic monopolies for a larger share of the exploration of Brazil's natural resources and of the cheap labor available in the country. Although it cannot break off all of its economic ties with imperialism and large landholders, it is oppressed by both and objects to both,

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(12) "Programa do IV Congresso do Partido Comunista do Brasil", reprinted in Problemas, Dec. 1954/Jan. 1955, p. 39.

and from this point of view it may take part in the anti-imperialistic and anti-feudal revolutionary movement".<sup>13</sup>

This analysis marks the end of PCB's isolation phase, which had begun in 1947-1948. This phase had some rather negative repercussions on socialist-oriented intellectual production. Only one of PCB's publications — the journal Problemas — was designed to publish studies and analyses of some depth. Moreover, the journal reflected the intellectual poverty of Brazilian socialism in that period, most of its issues featuring articles imported from the USSR, whose language and problems were far removed from the country's social and economic reality. The only instance of greater intellectual activity was socialists' participation in the "Oil Campaign". Through the Journal of the Military Club (from 1947 to 1952) and other less important media, like the magazine Emancipação (published during the year 1948), the PCB, specially through its high-ranking military officers within the Brazilian armed forces, who kept a discreet distance from the Party for security reasons, had an active participation in the ideological turmoil of the period, advocating the nationalization of oil and raw material exploration. From the intellectual point of view, this was virtually the only close relationship of socialists with Brazilian economic issues. Apart from that, all one could find was the publication of some isolated papers written by moderate socialists like Nelson Werneck Sodré, Heitor Ferreira Lima, or Aristóteles Moura.

### iii. The period 1954-1958

The third phase, from 1954 to 1958, covers a period of rapprochement between the Party and Brazilian political life.<sup>14</sup> In the year 1954, the

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(13) Prestes, L.C., "Informe de balanço do Comitê Central do PCB do IV Congresso do Partido Comunista do Brasil", reprinted in Problemas no. 64, Dec. 1954/Feb. 1955, p. 57 (quoted by Luiz Flavio C. Costa in "Nacionalismo e alianças políticas (1954-1958)", M.Sc. thesis submitted to IFCH/UNICAMP, 1975, mimeo).

(14) In the following paragraphs we shall base our presentation largely on the aforementioned analysis by Luiz Flávio C. Costa.

PCB realized its isolation. The popular consternation at Getúlio Vargas's suicide showed how far the Party had steered away from popular political feelings in opposing Vargas's government unrestrictedly and claiming for its overthrow. In 1955, the PCB chose to engage in the electoral dispute and gave its support to Kubitschek in the second semester. This change was backed by the belief that the major internal political allies to imperialism were UDN's advocates of a coup d'etat, who, in a coalition with the portion of the radical anti-Vargas right wing within the armed forces, had conspired against the deceased President and were now seeking to prevent the ascension of Kubitschek, who was the candidate of the PSD-PTB alliance. The PCB defended the Constitution and the prevailing democracy on behalf of the preservation of "the last remnants of freedom". The conception advocating a coup d'etat, which had prevailed up to 1954, was finally abandoned, which is to say that, in practice, politics was again thought of in terms of pacific changes within the existing institutional framework.

After the events of 1954 and 1955 and once Kubitschek got elected and installed, the PCB began to redefine its course of action, guided by the purpose of rehabilitating itself as a mass party. This tendency was reinforced by a serious internal political crisis that resulted in the delayed publication of the famous Krutschev Report denouncing Stalin, which had been presented at the XX Congress of the Soviet Union's Communist Parties in 1956. In that year, in the same document where PCB's Central Committee made a pronouncement about the Report and offered a "self-criticism", we find an important innovation in terms of the assessment of the possibilities of Brazilian economic development via capitalist ways:

"In Brazil, important economic and social changes are also under way. There are better conditions for changes in the relation of political forces in favor of democracy, independence and progress. The large patriotic and democratic forces tend to get united, from the labor class up to important bourgeois sectors. There is a growing isolation of and reduction in the minority of reac-

tionists and agents of American imperialism who fight desperately against our people's aspirations and supreme national interests. There is an aggravation of the contradictions among the dominant classes with reflections on all political parties, as well as on parliament and on the core of Mr. Juscelino Kubitschek's government".<sup>15</sup>

It is needless to point out that the acknowledgement of the feasibility of capitalist development is an almost indispensable complement to the definition of a pacific political course of action. Once these principles were set up, PCB's political identity came to be marked by an emphasis on the need to suppress imperialism, and in the background, on the need to eliminate land monopoly as a means of assuring the free development of the productive forces.

By 1956, therefore, the way had been paved for a conciliation with the thesis of the "democratic-bourgeois stage" that was to be fully adopted at the Fifth Congress, held in 1958. In the interval between those two years, PCB's position in relation to the alliance with the national bourgeoisie was still overlaid with emphasis on the idea that the hegemony over the political process of changing Brazilian society should be incumbent upon the proletariat. Prestes himself made a point of mentioning the need to be on the alert against the dangers of "national reformism", which, given its bourgeois or middle-class origins, was viewed as a poorly reliable ideology.<sup>16</sup> The subordination of the thesis of an alliance between the proletariat and the bourgeoisie to an anticipated definition of the "hegemonic sector" was finally abandoned in 1958.

The political regrouping of Brazilian society's progressive sectors around the democracy/development binomial, the heart of which was Ku-

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(15) Comitê Central do PCB, "Projeto de resolução sobre o XX Congresso do P.C.U.S.", reprinted in Vinas, M., O Partidão, op.cit., p. 165.

(16) See in this respect Luiz Flavio C. Costa's analysis referred to in note 13, p. 271 of this work.

bitschek's candidacy under the PSD-PTB alliance, had some immediate repercussions on the participation of socialist intellectuals in the Brazilian debate. The common trait among most of those intellectuals, i.e., that of writing for a reference public composed of fellow party members, had been an obstacle to their participation in the public debate during the sectarian phase. With the political opening of the PCB, this obstacle was removed and there occurred a natural re-engagement of its members in Brazilian political and intellectual life, with a renewed vigor in their participation in congresses, seminars, and some of the most important meetings of the time. Their substantial participation is recorded, for instance, at the National Congress for the Defense of Mineral Resources, held in 1956, at which a list of nationalist claims was produced in the form of resolutions passed at the meeting. Another example was their participation in the organization of a campaign on behalf of the land reform, which was undertaken by the Union of Brazilian Farmers and Laborers (ULTAB) in the same year.<sup>17</sup>

In terms of their participation in the intellectual debate, the main innovation in the period was the inauguration, in 1955, of Revista Brasileira, a journal that was to be regularly published up to early 1964. Its editors, Elias Chaves Neto and Caio Prado Jr., independently of their membership in the PCB, gave the journal from its very beginning an orientation that anticipated the liberal line that was to be adopted by the Party in 1958. The economic papers edited by the journal conveyed the predominant message that the country and national capital were undergoing a process of marked development and that imperialism was the great foe to combat. Nationalism and the liberalizing orientation — in terms of the orthodoxy prevailing in earlier years, that is — were clearly expressed from the very first issues of the journal.<sup>18</sup>

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(17) Cf. Costa, L.F.C., "Nacionalismo e alianças...", op.cit., pp. 76-87.

(18) Revista Brasileira was first issued in the second half of 1955, opening with a manifesto signed by forty-five intellectuals from all over the country, who declared that the publication was open to the co-operation of all those interested in making serious studies about the country's econ-

iv. The period 1958-1964

The 1958 "March Declaration" is PCB's document legitimizing the liberalizing tendency that, ever since 1954, had grown with an impetus that soon overcame the resistance of the most orthodox party leaders. Its text starts with the following acknowledgement:

"Some important changes have taken place in the last few decades in the economic structure Brazil inherited from the past, which is defined by the following characteristics: an agriculture based upon latifundia and pre-capitalist labor relations; massive predominance of crops and livestock production in the overall output; economic dependence upon foreign countries through both foreign trade and the penetration of monopolistic capital into the key positions of production and circulation.

Within the framework of this backward structure there began to unfold a national capitalist development that is Brazilian economy's progressive element par excellence. This indisputable development of capitalism consists of the furtherance of productive forces and the expansion of new and more advanced relations of production within the society's material basis".<sup>19</sup>

Starting from this analysis, here is how the PCB defined the Brazilian revolutionary stage:

"Brazilian society also holds a contradiction between the proletariat and the bourgeoisie, expressed in the various forms of class struggles between workers and capitalists. But this contradiction demands no radical solution at the current stage. Under the conditions prevailing in our country, capitalist development corresponds to the interests of both the proletariat and the entire population.

Therefore, the revolution in Brazil is not socialist as yet, but rather anti-imperialistic and anti-feudal, nationalist and democratic".<sup>20</sup>

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omic, social, political and cultural problems. (Sept.-October issue, 1955, pp. 1-3).

(19) Comitê Central, "Declaração sobre a política do Partido Comunista do Brasil", reprinted in PCB: Vinte anos de política, 1958-1979, São Paulo, Lech, 1980, pp. 3-4.

(20) Idem, p. 13.



Next we find several considerations that mark the new political tactics pursued by the Party, three of which are of special importance in defining the new phase: first, the idea that the "major blow" by national and democratic forces should be directed against "American imperialism and the Brazilian collaborators who lend it support".<sup>21</sup> The idea is that through an anti-imperialistic struggle "Brazilian society's progressive forces may accelerate independent economic development and the country's democratization process".<sup>22</sup> Secondly, there is the idea that communists should take part in the struggle conducted by those forces and help set up a single front, with no demand for an anticipated determination of who should control the movement and acknowledging the fact that attaining the proletariat's hegemony is "a laborious and gradual struggle".<sup>23</sup> Third but not least, there is the idea that "communists feel that there now exists in our country a real possibility of carrying out the anti-imperialistic and anti-feudal revolution by pacific ways and means".<sup>24</sup>

With the March declaration, PCB's direction officialized among its members its engagement in the political life of the phase that showed the greatest democratic advance in all of Brazilian history, i.e., the years 1958-1964. The Fifth Congress of the PCB, held in 1960, reaffirmed all basic points of the document of 1958. Regarding economic analysis, it re-stated the thesis that Brazilian capitalist development was feasible and that it was being delayed by the relations of property in the countryside, and essentially by imperialism. It is worthwhile to transcribe the passage of the Fifth Congress' "Political Resolution" containing its major economic considerations:

"The communists hereby exhort all anti-imperialistic and democratic forces to fight for an economic development plan aiming to promote the country's industrialization chiefly on the basis

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(21) Comitê Central, "Declaração sobre...", op.cit., p. 13.

(22) Idem, p. 9.

(23) Idem, pp. 17-18.

(24) Idem, p. 22.

of domestic resources. Foreign economic aid must be accepted in the form of government-to-government financing and under conditions that favor our country, without any political concessions. There is a need to fight for the cancellation of privileges granted to imperialistic capital by means of the following measures, among others: rigorous restrictions on the remittance of profits, royalties and interests, as well as on the repatriation of foreign capital; expropriation of the subsidiaries of Brazilian Traction (Light) and Bond & Share; extension of state monopoly to the gross distribution of oil derivatives; interdiction of foreign banks' receipt of deposits within the country and ban on foreign capital's operation in the insurance field; creation of nationalist policies to defend our mineral resources; expropriation of foreign-owned cold storage plants. National interests demand the development of some essential economic sectors by state capital, viz., oil, steel mills, energy, chemical industries, atomic energy, transportation, and others. A progressive development plan should demand the expansion and diversification of foreign trade by means of an intensification of commercial relations with the Soviet Union and other socialist countries, as well as with Europe and Latin America; it should also demand state monopoly over the exchange rate solely on behalf of national undertakings, as well as the application of foreign credits to essential imports, on a priority basis. In order to prevent economic development from occurring through an aggravation of the exploitation of the masses, as is currently the case, inflation must be combated and the value of the cruzeiro must be defended by means of measures to be enforced in the exchange rate, financial and economic sectors, viz.: suppression of currency issues for unproductive purposes; rigorous selection of credit in favor of essential productive activities; reduction of indirect taxes and increase in taxes levied on high income. Finally, it is necessary to give impetus to northern and northeastern development through basic investments to be made by the Federal Government, credit concessions to progressive enterprises, facilitation of foreign currency obtention, technical assistance, and land reform measures that may increase the domestic market and raise the standard of living of the rural masses".<sup>25</sup>

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(25) "Resolução política do V Congresso do Partido Comunista Brasileiro", 1960, reprinted in PCB: Vinte anos..., op.cit., pp. 54-55.

"Basic reforms" were to be an essential tool in the political action of the nationalist front as proposed by the communists. The PCB had no problem approving that instrument, but struggled continuously with the difficulty of characterizing the alliance with the "progressive sectors" of the bourgeoisie that might be acceptable to the working class. Another highly controversial issue within the Party at that time was the question of its level of political opening and internal democracy. The first major rupture took place within the scope of this question. In 1962, after being removed from the central board of directors, several of the most important leaders of the Stalinist orthodoxy that had dominated the Party up to 1957 decided to found a new organization based on the old guiding principles and using PCB's original name — Partido Comunista do Brasil (PCdoB). Apart from this, two other leftist organizations were formed between 1961 and 1963 (AP and POLOP). That was the beginning of a period of ruptures within Brazilian left-wing groups, most dissidents opposing PCB's alliance policy and its "merely reformistic line of action". The thesis that Brazilian capitalist development was unfeasible began to recover ground and found the ideal conditions, in the subsequent years of stagnation and dictatorship, to revitalize the thesis in favor of armed combats.

The set of texts portraying the divergences between left-wing groups in the period 1958-1964 still await a careful analysis, which we have not carried out.<sup>26</sup> To judge from the small sample of writings we have perused, one may suspect that the economic content of the debate held under the influence of divergences among distinct revolutionary conceptions was rather poor, both in terms of innovations and analytical capacity. The one great exception was, of course, the dispute between Caio Prado Jr. and other PCB members about Brazilian agrarian problems, to which we shall refer short-

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(26) An extensive bibliographic survey on leftist ideology in Brazil has been made by Chilcote, R.H. in Revolution and structural change in Latin America: A bibliography on ideology, development and the radical left (1930-1965), Stanford, California, Stanford University Press, 1970.

ly. Apart from that, even the analytical innovation then beginning to give support to the economic argumentation about the unfeasibility of capitalist development in Latin America, i.e., Gunder Frank's ideas about dependence, seemed absent from the debate.<sup>27</sup>

The period 1958-1964 was probably that when socialists, whether or not they were linked to the PCB, had their major intellectual militancy in all of Brazilian history. Already in 1958 there appeared the journal Revista de Estudos Sociais, issued by the PCB, which along with Revista Brasileira (edited by PCB members relatively independently from the Party) came to be the major vehicle for the publication of in-depth articles produced by the communist intelligentsia. Such authors as Jacob Gorender, Moacyr Paixão, Aristóteles Moura, Renato Arena, and Alberto Passos Guimarães often wrote economically-oriented articles for that journal, their main topics being, as in Revista Brasileira, the land reform and imperialism.

The early 1960s were fertile years in terms of new socialist-oriented publications. At the University of Minas Gerais, for example, the new Revista Brasileira de Ciências Sociais made room for texts on economic analysis produced by socialist authors. This journal survived the 1964 revolution thanks to academic protection. This, however, was not the fate of most of the countless other periodicals that appeared in that brief period of great democratic ease.

#### 4.2. The Problem of Imperialism, or "Foreign Capital" and Related Economic Questions

Throughout the period 1945-1964, the question of imperialism — or nationalism, or the "alliance with the national bourgeoisie" — was PCB's major political theme. The influence of this on Brazilian socialists' economic thought, as we have seen, was a decisive one. Broadly speaking, even such

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(27) Frank, A.G., Capitalismo y subdesarrollo en America Latina, Buenos Aires, Siglo Veintiuno, 1973.

basic economic topics as inflation and the balance of payments were treated merely as subordinate questions relative to nationalist or "anti-imperialistic" problems. Socialists' systematic defense of state enterprises also resulted, in essence, from the view that the state could become a major agent in the anti-imperialistic struggle.

Socialists' economic discussion of imperialism and other "subordinate" questions was carried out with no major academic concerns. It certainly was not conducted on the basis of any landmark in economic analysis. Nor could it be so, after all, since there are very few incursions of Marxian analysis into the field of international economic relations, let alone the problems of underdeveloped economies.

All that was available, in an implicit way, was Lenin's view of imperialism as the last stage of capitalism, and above all the Third International's guidance (adhered to by the PCB) to the effect that imperialism was the major people's opponent in the underdeveloped world. In short, the analytical paradigm was at best political, but not economic: the point was to determine the economic (and political) damages caused by the presence of foreign capital in Brazil so as to support the thesis of the top priority of a nationalist or anti-imperialistic stage in the Brazilian revolution.

It is worth noting that in the analyses made by both socialists and any other currents of thought there was no clear perception of the profound internationalization of industrial capital then beginning to take place and leading foreign company subsidiaries to move into underdeveloped countries. The general picture of the reflections about this topic was still that of old imperialism, seen as antagonistic to underdeveloped countries' industrialization. Nationalist developmentalists were anti-imperialistic in this old sense of the term. But their restrictions, as formerly noted, concerned the control over remittances and investments in sectors viewed as basic ones, such as mining and public services. The crucial question, in their opinion, was the capacity to plan and guide essential investments, and this led them to accept

any foreign investments that did not prevent the economy from reaching that goal.

With socialists, however, it was a different matter. They generally condemned each and every form of direct foreign investment. They argued that foreign capital is always detrimental to national development and that Brazil's heavy industrialization might well be fully carried out with national capital, only the know-how being imported. They therefore supported Kubitschek government's developmentalist character, albeit criticizing it severely for its "pro-imperialistic policies".

From the easy ex-post-facto perspective, this position has been viewed as contradictory by authors researching that period, in that capital internationalization and Brazilian industrialization ought to be regarded as historically inseparable processes. The mistake in this charge lies in that in the decade of 1950, industrial structures were still being implemented in underdeveloped countries, and the current pattern of capital internationalization was only beginning; these were associated processes, no doubt, but their interaction could not be fully understood at that time. It is therefore only natural that the realization of this historical knowledge was somewhat confused. Even so, we must record the dawning of a perception of this phenomenon in the works of some socialist intellectuals. Elias Chaves Neto, for example, said that "foreign capital seeks to invest in our country, first of all, in order to preserve a market that currently belongs to it and that might be subtracted by the emerging national industry; secondly, to benefit from our cheap labor, manufacturing right here those products that are sold to us".<sup>28</sup> But this perspective was invariably accompanied by an insufficient understanding of its real meaning. Caio Prado Jr., whose views were the same as Chaves Neto's, wrote the following comment:

"Now, such a solution to our economic problems is but a disguised

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(28) Chaves Neto, E., "O Presidente Kubitschek e o Fundo Monetário Internacional", Revista Brasiliense, August 1959, p. 3.

perpetuation of the current state of affairs. For it makes no essentially material difference whether we purchase the manufactured goods we need by means of imports or directly from foreign company subsidiaries located in Brazil. Either way we shall always be paying for our acquisitions in foreign currency; in the former case, by paying for the imports effected; in the latter, by paying the profits, dividends, royalties and other forms of remuneration of locally-installed foreign companies — a remuneration we are compelled to remit abroad and that represents debts we can only settle with revenues from our own exports. In essence, therefore, there still prevails Brazilian economy's traditional system of exchanging the primary goods we export by manufactured commodities that, albeit produced in Brazil, are made by foreign companies that are indirectly paid out of the revenues of those primary goods exports".<sup>29</sup>

Thus, in socialists' argumentation there persisted the basic idea of an antagonism between foreign capital and industrialization. Within such framework one may distinguish two major thematic sets that were given emphasis in socialist economic literature: (a) the nationalization of public services and heavy industry, along with control over mineral resources; and (b) profit remittances, capital repatriation and control over foreign trade.

The question of the state's exploration of public utility services like energy, transports and communications, and secondarily of heavy industry as well, was a permanent focus of socialists' attention in the period under study. The basic perspective presented was that the need to control the bases of industrial development made it indispensable to block foreign capital's access to such activities, and demanded that the state accept the responsibility for exploring them. Within this framework there were innumerable texts discussing, for example, the exploration of electric power by foreign companies, contesting the increase in public service charges, and claiming for the sector's nationalization. Equally constant were the papers in praise of state undertakings in certain heavy industry segments, like steel-

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(29) Prado Jr., C., "Nacionalismo e desenvolvimento", Revista Brasiliense, July 1959, p. 14.

works and basic chemical industries. No topic received greater attention, however, than the exploration of Brazil's mineral resources.

As we know, this theme grabbed hold of the nation in the post-war period and invited an enthusiastic debate about the question of oil, as well as other minerals. Nationalist military officers gathering both at the Military Club and, along with civilians, at CEDPEN, promoted the publication of periodicals like Revista do Clube Militar, where the question of control over the national subsoil was discussed from the perspective of national sovereignty. That was the time the cold war was beginning, and for this reason the problem was interwoven with that of Brazil's military alignment with the USA. The most radical position in the debate was taken by socialists, who aligned with the USSR. For them, the defense of oil, atomic minerals, manganese and the like became part of both the discussion about national control over the supports of Brazilian economy and the political-ideological dispute between the USA and the USSR.

From the vantage point of the country's economy, the arguments against the presence of foreign companies in mineral exploration were the classical anti-imperialistic ideas, viz., the belief that such companies were evil, in that (a) they exported national raw materials at low prices and these returned to the country in the form of high-priced industrialized products; (b) they eroded Brazilian resources with no regard whatsoever for the country's future economic needs, and prevented a planned expansion of domestic supply; (c) they held back information about the existence of oil according to the conveniences of international oligopolies; and (d) they remitted profits and repatriated capital at their convenience, thereby reducing the country's accumulation capacity and also its import capacity.

The creation of Petrobrás with the support of UDN rightists<sup>30</sup> weakened the ideological strength of socialists' nationalist claims regarding the

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(30) See chapter 2.2, Part II of this work.



question of mineral resources. But this discussion was certainly not to be interrupted, as some episodes with a markedly political-ideological content kindled the debate about the possibility of breaking the state's monopoly over oil and about the efficiency of Petrobrás's administration.<sup>31</sup> Still, the great economic topic in the anti-imperialistic campaign as of the mid-fifties was to become that of profit remittances and capital repatriation.

From socialists' perspective and also partly from that of nationalist developmentalists, the problem of controlling foreign investments went beyond the mere question of remittances, as what the country required was integral planning and control over investments, including a state selection of capitalist agencies. The question of remittances, however, was the one holding greater ideological appeal, given the recurring difficulties in the balance of payments faced by the country throughout that period. The years 1952-1954 were particularly favorable to the predominance of this question over the oil issue in the anti-imperialistic campaign. In those years, besides the settlement of the oil issue, there was a widespread diffusion of evidence on the evasion of currency caused by the movement of capitals. The liberality of Brazilian controls was denounced in a famous speech delivered by Getúlio Vargas in late 1951, and ECLA published the corresponding data two years later. From then onwards, the problem of currency evasion via remittances became the major economic argument in Brazilian socialists' anti-imperialistic campaign.

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(31) In 1958, for instance, a book by ISEB's member Helio Jaguaribe (O nacionalismo na atualidade brasileira, Rio de Janeiro, ISEB, 1958) was the object of severe criticisms on the part of socialists and gave rise to an institutional crisis whose outcome led Jaguaribe to quit that agency, of which he was one of the founders. Another episode that caused considerable impact involved a bid by the Brazilian government to explore oil in a Bolivian area to which Brazil was entitled on the strength of an agreement signed between the two countries for the construction of a railroad. The agreement prevented exploration by state agencies, thus leading to a need to choose between small, inexperienced national private companies and large international firms. The radical nationalist position can be found in J. Silveira and L. Coutinho's História de uma cons-piração: Bolívia, Brasil e petróleo, Rio de Janeiro, 1959. The major defense of a concession to foreign companies was made at the National Congress by Roberto Campos, then Superintendent-Director of BNDE.

The major Brazilian researcher of foreign capital was Aristóteles Moura. His book Capitais estrangeiros no Brasil, published in 1959, was the socialist current's major effort to gather and systematize information and arguments opposing the country's absorption of foreign capital.<sup>32</sup> The question of remittances is a central one in the book's development, of which we shall give a brief summary in view of its importance.

Moura started out from the verification that the net movement of foreign capital between 1939 and 1952 (save for 1947) had shown a negative balance (chapter I). He next stated that over half of the capital of foreign companies established in Brazil corresponded to a reinvestment of profits (chapter II). In this respect, he argued that if the wealth generated in the country did not result in remittances that were detrimental to the domestic accumulation capacity and the balance of foreign accounts, it nevertheless had the drawback of reinforcing foreign companies' already unfair capacity to compete with national firms. The two subsequent chapters (III and IV) convey a survey of the American capital then present in our country, while chapter V shows an analysis of the profit rate yielded by that capital. Moura next developed the argumentation that official statistics, which in themselves showed high profit rates, hid a number of artifacts that would raise the real profitability, such as underinvoicing, overinvoicing, etc. He complained about the government's neglect of foreign companies' monopolistic practices, for as a rule they had absolute control over the markets in which they had a share.

In chapters VI and VII Moura analyzed the question of the transfer of revenues (dividends, profits, and interest) and capital. Between 1947 and 1952, the official ratio between the value of transfers and exports ranged from 11% to 15%, excluding capital repatriation and the amortization of private loans. If these two items were included, the value of transfers would

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(32) Moura, A., Capitais estrangeiros no Brasil, São Paulo, Editora Brasiliense, 1959.

imply a pressure on the balance of payments with four serious consequences for national economy.

First, it caused a dramatic reduction in import capacity, thereby affecting economic development. Second, it had a depressing effect on the exchange rate, making exchange stability unfeasible and eliciting constant monetary crises. Third, by reducing imports, it reduced the domestic availability of goods and services, thus provoking inflation. And fourth, transfers worked as a "suction pump" within national economy, draining away to foreign countries the income that might have the potential to expand the small internal accumulation capacity.

Chapter VIII deals with "loans". Moura made a critical presentation of EXIMBANK's and BIRD's loans, drawing attention to the need to consider the American political and commercial interests embedded into any negotiations with those agencies, so as to assess the convenience of such transactions.

Chapters IX and X offered a synthesis of Moura's economic conclusions. In the former, he examined foreign capital contribution from four different angles. He initially observed that this capital's participation in national investments was negligible (approximately 3% in the whole of Latin America); given that profit remittances were larger than net investments, the conclusion was that the overall effect of such investments was detrimental to the domestic accumulation process. Secondly, attracting foreign capital as a means of increasing exchange rate revenues was equally detrimental to the country, and for the same reason. Thirdly, one must further consider that "foreign company undertakings are largely financed with Brazilian capital".<sup>33</sup> And fourthly, Moura acknowledged that the import of modern techniques was indispensable for economic development, but recommended that national agencies endeavour to absorb that technical know-how.

In chapter X, Moura argued that, given the alternative of absorbing

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(33) Moura, A., Capitais estrangeiros..., op.cit., p. 306.

foreign capital through loans or direct investments, the former modality was the only one the country might benefit from. It meant a smaller expenditure in terms of foreign currency, less uncertainty regarding such expenditures, and a smaller invasion of national economy by foreign capital, even though it occasionally entailed political commitments with creditor countries that could be detrimental to the country's political sovereignty.

The acceptance of the loan modality, in contrast with the objections to the direct investment modality, was a common feature among most economists in the socialist current. By 1955, Caio Prado Jr. claimed that financing, "without alienating our economic independence and without introducing disturbing factors into our economy's organic operation", may play the role of the foreign capital required by the country, i.e., the equipment and know-how produced abroad.<sup>34</sup>

The final solution for the question of remittances should be, according to most socialists, a ban on direct foreign investments. The realization that it would be politically unfeasible to attain this objective right away led many socialists to propose simply a greater rigor in the governmental treatment given to this issue. The application of greater rigor was said to depend upon a nationalist policy of planning and control over foreign investments and foreign transactions within the country. Viewed from this angle, the solution for the problem of remittances became only one item — albeit a privileged one — among several others in a long list of revindications. Zaccarias de Carvalho, for example, assessed the remittance question within the wider framework of a discussion which, by the late 1950s, began to emerge around the formulation of a Foreign Investment Code. Carvalho felt that the Code should cover the following aspects: (a) priority for national capital; (b) subordination of foreign capital projects to the country's investment plans; (c) exclusion of some basic and heavy branches of the economy from the

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(34) Prado Jr., C., "Nacionalismo brasileiro e capitais estrangeiros", Revista Brasiliense, Nov.-Dec. 1955, p. 30.

field of foreign capital investments; (d) preference, in all other cases, to capital that might associate with national capital as minority shareholders; (e) selection of projects according to the criterion of a complementation of the domestic investment capacity; (f) raising of obstacles to the inflow of bank investments, specially when directed to deposit account banks; (g) reiteration of the principle of state intervention in the domain of foreign companies; (h) establishment of a selective criterion for taxation on income and foreign capital's excessive profits; (i) diversification of the countries supplying financed equipment; (j) preference for foreign capital in the form of medium and long-term loans and financing; and (k) regulation of the system of profit, dividend and royalty remittances through the stipulation of a single exchange rate for both the inflow and outflow of capital and profits".<sup>35</sup>

The foregoing list is a fair synthesis of the concerns guiding socialist thought about nationalist economic development policies in those days. The earlier aspects concern the idea of a need for state planning and control over the investment process in sectors viewed as strategic ones, and the need to protect national capital's field of investments against foreign competition. The latter relate to the concern about exchange rate policies and international trade.

In this latter field, socialists used to guide their thinking by the proposition of a "state monopoly over foreign trade". And as one might expect, their basic argument to support that proposition was the one with greater ideological appeal at the time in terms of the anti-imperialistic campaign, i.e., the idea that such monopoly would be the way to stop profit remittances.

In socialists's discussions about exchange rate and balance of payment problems, liberalism was viewed as a basic weapon of imperialism, in that it was interested in the free remittance of profits and capital. There were some criticisms against the implementation of a free exchange rate mar-

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(35) Carvalho, Z., "Capitais estrangeiros no Brasil", Revista Brasiliense, July-Aug. 1957, pp. 28-30.

ket in 1953 (for capital and tourism alone at that time), as well as against the 1957 transfer of part of the exportable goods to the free market, and finally against the greater exchange rate liberality introduced by SUMOC's Instruction no. 204 of 1961.<sup>36</sup> Another point that was repeatedly criticized by socialists in the field of exchange rate policies was the enforcement of SUMOC's Instruction no. 113, passed in 1955 under Eugênio Gudin's term as Finance Minister, which authorized foreign capital to import equipment without the necessary exchange coverage.<sup>37</sup> IMF's interference in domestic economic policies was also the object of constant criticisms, which became particularly harsh at the time of the negotiations that led to breaking off relations with that agency in 1959.<sup>38</sup>

#### 4.3. The Agrarian Question

PCB's definition of the Brazilian revolution as an anti-imperialistic and anti-feudal movement par excellence induced it to select the land reform as the second major topic for socialists' reflections about the economic and social reality. The starting point for the debate about this theme, i.e., its primary drive was political in nature: that was an absolutely central question for the definition of the Party's revolutionary program. From this primary drive there emerged three lines of discussion, all of them interconnected by their association to the Marxian-oriented paradigm (originating in the Third International's guidelines and adopted by the PCB) that rural relations of production in neo-colonial countries, given that they are "feudal" (or "semi-feudal", or "pre-capitalist", etc.), hinder the development of the

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(36) See, for instance, the article "Análise e perspectivas na política cambial", Revista de Estudos Sociais, Sept. 1962, pp. 148-165 (written by a group of unidentified technicians).

(37) See, for instance, Paulo A. Pinto's article "O vigente mecanismo cambial, eixo da dominação imperialista no Brasil", Revista Brasiliense, Sept.-Oct. 1957, pp. 36-43. In Pinto's words, "by exempting equipment imports by foreign investors from the requirement of exchange coverage, a coup de grâce has been given to national industry's developmental possibilities" (p. 44).

(38) See, for example, J. Gorender's article "A espoliação do povo brasileiro pela finança internacional", Revista Estudos Sociais, May-Sept. 1959, pp. 131-147.

national productive forces. The three lines may be said to correspond to historical, sociological, and economic reflections.

The historically-oriented debate stemmed from Marxist intellectuals' natural inclination towards scrutinizing the past in search for elements that may enable an understanding of the present. In this particular case, they discussed the effects of Brazilian colonial history on the evolution of the agrarian structure as a means of understanding the prevailing agrarian situation.<sup>39</sup>

Historical reflection thus aimed to provide subsidies to the discussion about the central problem then occupying the minds of socialist intellectuals devoted to agrarian problems, which had a sociological nature: given the Party's official thesis, the point was to advocate or reject the idea that the social relations of production were indeed "pre-capitalist". The "feudal" or "semi-feudal" unit, according to most socialists, was the latifundium, which they claimed to be characterized by a typically servile labor system operating through different share-cropping and tenancy systems.<sup>40</sup> They next presented statistics that disclosed a high concentration of landed property, and thus believed to be demonstrating the predominance of latifundia and feudalism in the countryside. Alberto Passos Guimarães and Moisés Vinhas were the major intellectuals following this line of argumentation,<sup>41</sup> which made its presence felt in most of PCB's official documents since the 1930s, in consonance with the Third International's conception regarding production relations in neo-colonial countries. In this field of sociological

(39) See, in this respect, the first chapter of Moacyr Palmeira's work "Latifundium et capitalisme, lecture critique d'un débat", Ph.D. thesis submitted to the Faculté des Lettres et de Sciences Humaines, Université de Paris, mimeo, 1971.

(40) The sociological debate is the object of the second chapter of Palmeira's aforementioned thesis.

(41) By Alberto P. Guimarães, see, for instance, "A questão agrária brasileira", *Revista Brasiliense*, Sept. 1962, pp. 166-174, and specially his books *Quatro séculos de latifúndio*, São Paulo, Fulgor, 1963, and *Inflação e monopólio no Brasil*, Rio de Janeiro, Civilização Brasileira, 1963. By M. Vinhas, see "Algumas considerações sobre as classes e as camadas

analysis, in particular, the political motivation of the debate had a two-fold importance, as not only the definition of PCB's political platform at the general level of the Brazilian revolution was at stake, but so was the organization of peasants' struggles. The view stemming from the prevailing conception was that the land reform should consist of a partition of the land, for this was the major claim of the peasants who were oppressed by the servile labor regime.

This view, however, was not unanimous. The main divergence from it was presented by PCB's most highly respected intellectual, Caio Prado Jr. There are records to the effect that already in 1946 Prado Jr. had discussed the agrarian question at the Party, disagreeing with the thesis that production relations in the countryside were "pre-capitalist" ones.<sup>42</sup> In an article dated 1956, where he commented on the USSR's Political Economy Manual, Prado Jr. stated, in disagreement with the text's generalizations concerning labor conditions in "dependent" countries, that "the major agrarian problems and struggles in Brazil have nothing to do with feudalism or feudal survival".<sup>43</sup> Up to 1960, however, Prado Jr. gave top priority to the question of imperialism. And this is understandable: after all, by viewing Brazilian agriculture as a capitalist one, he did not see it as an obstacle to economic development. Although he did not discuss the question in such terms, we have every reason to believe that this view was implicit in his way of conducting his intellectual militancy. From 1960 onwards, Prado Jr. also devoted himself to the agrarian question. In that year, he published in Revista Brasiliense the first of a series of three articles — the forerunners of his classical A revolução brasileira — that were to have strong ideological repercussions among

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do campo no estado de São Paulo", Revista Brasiliense, June 1962, pp. 37-74, and specially his book Problemas agrário-camponeses no Brasil, Rio de Janeiro, Civilização Brasileira, 1968.

(42) See the article "Três etapas do comunismo brasileiro" in Cadernos do Nosso Tempo, No. 1, 1954, pp. 120-128. (The article is not signed).

(43) Prado Jr., C., "O manual da economia política da URSS", Revista Brasiliense, May-June 1956, p. 138.



Brazilian leftists, thanks to his systematic divergence from PCB's orthodox theses about the Brazilian countryside.<sup>44</sup> According to Prado Jr. there were three basic forms of remuneration in the country's agricultural and livestock-based activities, viz., wage payments, payment in the form of part of the output, and concession of land utilization rights to farmers so that they assured their subsistence.<sup>45</sup> To his understanding, all three regimes were but slight variations of wage labor, the "character of service hiring being the actual essence of labor relations in Brazilian agricultural and livestock breeding activities".<sup>46</sup> The important point to note, in his opinion, is that those activities are governed by a capitalist rationale on the part of landholders, who employ different remuneration regimes on the basis of the criterion of profitability maximization, thus moulding property relations that are far from being servile.

In a text dated 1960, still in consonance with PCB's position, Prado Jr. emphasized land partition as the major reform to be effected. As an additional measure, however, he introduced the struggle for the extension of labor legislation to rural areas. By 1962, the divergence between his and the Party's political orientation was aggravated, as Prado Jr. assigned more weight to the struggle for improving working conditions through labor legislation and admitted that land distribution is not always feasible or advisable. This stance was to develop, in his final text (A revolução brasileira), into the view that the land distribution proposal was incorrect, as considering the essentially capitalist relations of rural labor in Brazil, work-

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(44) The three articles published in Revista Brasiliense are "Contribuição à análise da questão agrária do Brasil" (March-April 1960), "Nova contribuição à análise da questão agrária no Brasil" (Sept.-Oct. 1962), and "A marcha da questão agrária" (Jan.-Feb. 1964). The book A revolução brasileira was published by Editora Brasiliense in 1966.

(45) In writing this section we have resorted extensively to Fernando J. Cardim de Carvalho's "Agricultura e questão agrária no pensamento econômico brasileiro (1950/1970)", M.Sc. dissertation submitted to IFCH/UNICAMP, mimeo, 1978.

(46) Prado Jr., C., "Contribuição à análise...", op.cit., p. 214.

ers did not claim for land ownership, but rather for an improvement in their wages and working conditions.

As we have noted, Prado Jr. was not the only author in the socialist current to diverge from the Party's official position. Still in the 1950s, different authors expressed their view that there was a "strong capitalist penetration" into the country's agricultural and livestock breeding activities. Not incidentally, the basic vehicle expressing the heterodox current's ideas was the journal Revista Brasiliense, edited by Prado Jr. himself. Let us see, for instance, what socialist Evaldo Martins said in this respect in 1957:

"If production relations in rural areas have historically undergone two distinct phases, i.e., the slave labor phase and the phase of pre-capitalist relations, both of them resting upon land monopoly, we now witness the beginning of a new phase — that of capitalist penetration into the country, as translated into the emergence of an agricultural proletariat and into capital investments, with their resulting technical penetration. We must therefore distinguish between large properties corresponding to the classical type of latifundia and large estates that may already be viewed as capitalist units, as, for example, a large number of sugar mills. Side by side with these we also find co-operative production and, in some areas, a predominance of small and medium-size properties.

It is on the basis of this reality of the Brazilian countryside, taking into account huge regional differences demanding elasticity and decentralization in policy enforcement, that one must formulate an agrarian plan corresponding to national economy's needs".<sup>47</sup>

We must note that in the decade of 1960, when Prado Jr.'s thesis gave support to the radicalization of part of Brazil's left-wing currents,<sup>48</sup> there

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(47) Martins, E., "Algumas observações sobre a luta pela emancipação nacional", Revista Brasiliense, May-June 1957, p. 26.

(48) In the early 1960s, when industrialization's failure to solve the existing social problems was under discussion, PCB's position, as we have seen, continued to be that Brazil was going through a historical stage in the development of its productive forces via capitalist means, it being necessary to fight against the elements that delayed historical progress,

also emerged some socialist authors who disagreed with PCB's proposal for a land reform, avoiding even the discussion about feudalism in rural areas. That was the case, for example, of Michael Lowy: "The agrarian revolution in Brazil, as in all of Latin America, must be an integral part of a vast process of uninterrupted revolution in which the masses that are exploited in the cities and in the countryside will simultaneously destroy their three major oppressors: imperialism, capitalism, and large landholders. (...) The purposes of the agrarian revolution in Brazil may be basically the following: (1) expropriation of large latifundia and capitalist agricultural enterprises with no indemnity payments; (2) establishment of democratically-managed agrarian communes in large estates under the control of their workers; and (3) stimulation of the establishment of co-operatives for small landholders who still have not adhered to communes".<sup>49</sup>

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i.e., imperialism and feudal residues in agriculture. The working class and the peasantry, allied to the national bourgeoisie, should give priority to that struggle. Ideologically speaking, the objections to this view emerged at about the same time from two different sources. First, dissident organizations and the more radical members of PCB itself doubted the existence of a national bourgeoisie that might be willing to engage in an anti-imperialistic struggle. The logical consequence of this idea was the view that there was no simultaneously anti-imperialistic and capitalist stage to go through in our country. Secondly, on the basis of Caio Prado Jr.'s writings about the agrarian issue, one might question the existence of an anti-feudal struggle waiting to be conducted, since agriculture, just like the rest of the economy, was already in the capitalist stage. The combination of these two ideas allowed for a redefinition of the Brazilian revolution as a socialist revolution. As early as 1961, one of the founders of the leftist organization called POLOP, Theotonio dos Santos, claimed that "the upper Brazilian bourgeoisie is extinguishing the traces of an agrarian and colonial Brazil so as to create an industrial and urban capitalist Brazil that may be fully identified with international capitalism" (Revista Brasiliense, July-Dec. 1961, p. 63).

- (49) Lowy, M., "Notas sobre a questão agrária no Brasil", Revista Brasiliense, July-Dec. 1960, pp. 68-69. It is worthwhile transcribing the note included by Elias Chaves Neto, editor of Revista Brasiliense, at the bottom of the first page of Lowy's article: "The conclusions reached in the article above do not fit in with the journal's orientation, which is a nationalist one, as per the manifesto signed at its constitution. By nationalist we mean policies that aim to unite the largest strata of Brazilian population in the anti-imperialistic struggle, thereby promoting an improvement on the people's standard of living within the prevailing social and political regime".

Within this wide framework of socialist reflection about the land reform, the economic dimension, which is the one we are concerned with in the present work, appeared as a relatively secondary question. In a way, this is paradoxical, for the starting point of the debate, as we have stressed, was PCB's programmatic thesis that production relations in rural areas hindered national economic development. One might therefore expect a reasonably systematic reflection to be produced regarding the effects of the landed property structure on development and on the relationship between agriculture and industry at large. Economic problems emerged in the debate rather as a logical outcome of the central political thinking than as an object of essentially economic analyses.

The analysis made on the relations between the agrarian structure and economic development in the socialist current's writings stressed the negative effects of latifundia on agricultural supply and the domestic market.<sup>50</sup> As concerns supply, latifundia were viewed as productive units that were unable to comply with the expansion in the supply of food products demanded by economic development. The reasons indicated were no different from those found in the writings of ECLA authors. First, latifundia were considered as basically impenetrable by technical progress and as perpetuators of backward agricultural practices that destroyed the soil. Second, they were thought of as maintaining wide and fully explorable areas uncultivated, as a result of the non-entrepreneurial attitude of large Brazilian landholders. This attitude was fully evidenced, according to socialists, in the passivity with which

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(50) This analysis is scattered throughout a number of texts. Its major vehicles were the journals Revista Brasiliense and Revista de Estudos Sociais. Another important reference source is the October 1961 issue of Revista Brasileira de Estudos Políticos, dedicated to the question of the land reform and featuring articles by F. H. Cardoso, Octávio Ianni, Paulo Singer, and Samuel Schathan. The books formerly quoted by Alberto P. Guimarães and Moisés Vinas are also an indispensable bibliographic source. PCB's official texts contain the conceptualization described in the forthcoming paragraphs of the present section. A good review of this analysis can be found in chapter I of the aforementioned thesis by Fernando J. Cardim de Carvalho.

landholders faced the export market crisis. Their inflexibility was said to have determined an overproduction of export goods and a shortage of food products.

Socialists often emphasized the inflationary character of the shortage in the supply of food products. They also pointed to credit expansion favoring export-oriented agriculture and to exchange rate devaluations as causal factors in inflation, attributing them to large landholders' capacity of exercising pressure on the Brazilian government.

Another basic characteristic of latifundia affecting supply expansion, according to socialists, was the landholders' consumption-prone behavior. The latter, with their expenditures on luxury commodities, caused investments to rank far below the accumulation capacity in agriculture and in the economic system as a whole.

Latifundia were also detrimental to development, in socialists' words, because they were an obstacle to the establishment of a wide domestic market. The basic claim was that the concentration of rural property is the major cause of urban underemployment and unemployment, as it makes it unfeasible for man to settle in the countryside and causes a continuous migration into the cities. The result is a strong pressure on the labor market, entailing low salaries that approach the low wages paid to rural workers, and an obstruction to domestic market expansion in the country and in the cities.

Land redistribution thus emerged as a solution for both the expansion of agricultural production — as small and medium-size properties were said to cultivate mixed crops geared to the domestic market, whereas latifundia were export-oriented plantations — and the expansion of industrial demand for its effects on wages and income distribution. This was specially the position adopted by those socialists who conceptualized production relations in the countryside as being pre-capitalist and who believed that land redistribution was farmers' major claim.

In the early 1960s there went through the channels of the National

Congress some hundreds of land reform projects, as this had become a topic of discussion for all political currents. The problem of the effect of a land reform on agricultural productivity and of the need to carry out in-depth studies that might lead to a diversified set of reforms according to the different areas, types of culture, etc., upset the more radical socialists, who felt that the debate was a manoeuvre to make the desired transformation unfeasible. Disagreements, however, seemed to have more than just an ideological basis. There was, in the first place, a deep and obvious unawareness of Brazilian rural reality, and secondly, a natural uncertainty regarding the immediate results to be brought to agricultural production by a wide land reform. Of course, those interested only in preserving their privileges took advantage of this. Most socialists, for both ideological and political reasons, preferred to ignore the doubts concerning the efficacy of a wide and indiscriminate land reform, keeping the debate at as abstract a level as possible.

#### 4.4. Final Considerations

In our analysis of other currents of thought we have tried to identify the position of their most representative authors regarding the different questions of Brazilian political economy. In the case of the socialist current, we have been led to adopt a somewhat distinct procedure. We have restricted ourselves to the two basic questions faced by socialist intellectuals, i.e., imperialism and the land reform. At this point, our reasons for adopting this procedure must have become self-evident.

In socialist analyses, all basic issues in Brazilian economy were dealt with as problems deriving from imperialism and the agrarian structure. Socialists seldom discussed exchange rate problems, and where they did, they subordinated their reflections to the relationship between liberalism and imperialism. Inflation was a similarly secondary topic in those authors' thought. In most references to this theme there was a somewhat poor argumentation, such

as the claim that inflation results from exchange rate devaluations stemming from the lack of foreign credits caused by the remittance of profits by imperialistic capital, or the claim that it results from the agricultural supply shortage determined by large landholders' monopoly of the land. At the level of analytical studies, socialists' participation in the debate about inflation was much inferior to that of structuralists and monetarists. Their interpretation was similar to ECLA's in various aspects — lack of foreign credits and insufficient agricultural supply —, but it lacked ECLA's analytical strength.<sup>51</sup> The only work by the socialist current showing an effort of systematization in the treatment of the inflationary question is Alberto Passos Guimarães's book Inflação e monopólio no Brasil. Inflation was said to be a consequence, in the first place, of the concentrated landed property structure, in which a "dominant position [is held by] the more developed forms of property of monopolistic foreign capital and the underdeveloped forms of ownership of agrarian oligarchies"; in the second place, it was said to result from governmental economic policies put at the service of those interests, entailing exchange rate reforms, a lack of control over foreign trade and public expenditures, and credit expansion that reinforced their profits or socialized their eventual losses.<sup>52</sup> Incidentally, this interpretation was consonant with another concern found among socialist intellectuals — notably Heitor Ferreira Lima and Aristóteles Moura — i.e., their interest in showing that there was a high concentration of property especially in those sectors of the economy where foreign capital was predominant.

As for the question of income distribution, the debate about it was subordinated, as we have noted, to the discussion about the land reform. The

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(51) The similarity may be detected, for instance, in an article by Caio Prado Jr. where the author states that "the causes of inflation are monetary only in extremely exceptional cases", proposing the solution of state planning and support to production in the economy's bottlenecks (Caio Prado Jr., "A inflação brasileira", Revista Carta Mensal, February 1959).

(52) Guimarães, A.P., Inflação e monopólio no Brasil, op.cit.

same applies to socialists' participation in the debate about SUDENE's creation. Their writings on the matter, though they closed with some words of support to that initiative, had as a central axis an analysis marked by a strong scepticism as to the possibility of progress in what they viewed as the real solution for the northeast, i.e., the land reform.

As a final observation, we must draw attention to the fact that, notwithstanding the relative analytical weakness of economic thought as expressed by socialists, their growing presence in the debate of the 1950s and early 1960s had indisputable intellectual merits. As a current of thought, they were possibly chiefly responsible for the introduction and preservation of a long-term historical perspective in the Brazilian social and economic debate.

## 5. Ignácio Rangel's Independent Thought

### 5.1. Introduction

Ignácio Rangel has been the most creative and original analyst of Brazilian economic development. He graduated in Law in his homeland, the state of Maranhão, and studied history and economics on his own. He worked with several organizations that were essential to the post-war developmental process: at Vargas's Economic Advisory Board he took part in the elaboration of the project for the creation of Petrobrás and Eletrobrás; at the BNDE, he had a share in the execution of the Target Plan and was temporarily in charge of the Economic Department; at the Development Council he co-ordinated a number of official surveys and analyses about Brazilian economy. Rangel thus had the opportunity to view Brazil from the privileged perspective of some of the country's major economic decision centers. He conducted his intellectual militancy within those agencies and also at ISEB, several academic centers, and the Economists' Club.

The term "intellectual militancy" is not inappropriate in that Rangel was not only a thinker with a deep awareness of his political engagement in



the process of transforming Brazilian society, but also one who elected the intellectual course as his major tool for making a personal political contribution to the country. In the preface to his best known book, A inflação brasileira, he tells us that his work in the field of economics "was motivated from the very beginning by legal and political concerns" — especially the political ones, we might add.

In the decade of 1930 he took part in the National Liberating Alliance's adventure, which cost him imprisonment and vexations in the prime of his youth. The reading of his complete works leaves us the impression that his intellectual labor is a kind of criticism directed against the appraisal leftists had been making, since the beginning of the 1935 movement, about the revolutionary conditions existing in the country. Hence the impression that at a certain point in his life he felt he had got idealistically carried away in his youth by a mechanical transposition of revolutionary theses that were actually alien to Brazilian reality.<sup>1</sup> Hence also the feeling that, from then onwards, his great obsession became the understanding of that reality by means of analyses that should refuse to use imported theories without duly adjusting them to the country's specific historical conditions.

Rangel's work is an original attempt to adapt historical materialism and economic theory to the analysis of the Brazilian case, which the author undertook by means of a systematic attempt to understand the universality and specificity of the laws of historical evolution and the functioning of Brazilian economy. In his view, the specificity of this evolution "does not

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(1) This is probably what led him to state, in the preface to an edition of his conferences delivered at ISEB in 1955, that "instead of getting to know the process, which is a pre-requisite for mastering it, we generally start off from the assumption that all is bad and that we must make some sort of demiurgic intervention to make things start to get better. This attitude results from the fact that, if we do not base our developmental policies on the forces operating within the national economic system itself, we shall have to base them upon alien forces (...)" (Rangel, I., Introdução ao estudo do desenvolvimento econômico brasileiro, Salvador, Livraria Progresso Editora, 1957, preface).

mean that the economics we study in foreign books and adopt in our colleges is not scientific. It means rather that, except for the technique for handling economic phenomena (...), everything changes in economic science when once the reality under study is changed".<sup>2</sup>

In this pursuit Rangel built an original analytical framework with which he theorized on Brazilian economic development. The seal of his own theory can be identified in his analyses, specially in his discussions about planning, the land reform, inflation, and the crisis of the early 1960s.

In those works, Rangel diverged from all currents of thought existing in those days. This independence cost him a considerable intellectual isolation. As an advocate of economic planning, he gave support to the works conducted by BNDE and the Development Council, but disagreed with the prevailing conceptualizations on that topic. As both a nationalist and a socialist intellectual, he was a lively participant in the intellectual life of centers like the ISEB and the Economists' Club, but he shared neither the analyses and suggestions conveyed by ECLA's economic policies nor the interpretations made by intellectuals linked to the Brazilian Communist Party regarding the historical stage the country was allegedly going through. He had the courage to confront the predominant currents of thought all by himself, even with respect to the explosive topic of the land reform. And he did so with great determination, armed with a personal interpretation of Brazilian economic development that was to become a landmark in his contributions.

In the text that follows we shall discuss the basic elements of that contribution and the way they combine to form a theory of Brazilian development based upon the thesis of a duality. This thesis confers unity to Rangel's entire thinking, from the ideas expressed in his earliest writings back in the early 1950s up to his best known texts, written in the early 1960s.<sup>3</sup>

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(2) Rangel, I., Dualidade básica na economia brasileira, Rio de Janeiro, ISEB, 1957, pp. 25-26.

(3) Rangel's thought has only recently begun to receive the publicity it deserves. Such publicity, however, has been chiefly restricted to his ideas

We shall begin our survey by presenting the essential elements of Rangel's developmental theory. As we will see, the description of the basic theoretical aspects in his thought is indispensable to a comprehensive view of his analysis of those questions.

Our survey is divided into two parts. The first one examines Rangel's theory of Brazilian development, which was largely formulated in the decade of 1950. The second part corresponds to an examination of his discussion about four issues, viz., the problem of planning, which held his attention up to 1960; the agrarian question, which was a frequent concern in his writings; particularly in the early 1960s; and the questions of inflation and the economic crisis, which are the focus of his analyses in the early 1960s.

## 5.2. The theory of economic development

In examining the various currents of Brazilian economic thought in the preceding chapters and with regard to the period under study, we have attempted to identify the theoretical content of their formulations. We have

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concerning the interpretation of the economic crisis of the early 1960s. His book A inflação brasileira, written in 1963, was reprinted in 1978, and an interesting thesis of Kaleckian inspiration has just been prepared at Universidade de Campinas on the basis of that work (Paulo R. D. Chagas Cruz, Ignácio Rangel, um pioneiro: o debate econômico do início dos anos sessenta, M.Sc. dissertation submitted to IFCH/UNICAMP, Campinas, 1980, mimeo). This work contains an appendix summarizing Rangel's writings dating from the 1950s on the strength of a review of some fundamental aspects of that author's views about Brazilian economic history, the relationships between agriculture and industry, and the state's role in the developmental process. However, as the work privileges the writings dating from the 1960s, Chagas Cruz did not realize that the main thread guiding all of Rangel's thought is to be found in his developmental theory based upon the idea of a duality in Brazilian economy. Another interesting newly prepared thesis assesses Rangel's contribution concerning the land reform issue, as part of a study about several views of the agrarian problem in Brazil (Fernando O. Cardim de Carvalho, Agricultura e questão agrária no desenvolvimento econômico brasileiro - 1950/1970, M.Sc. dissertation submitted to IFCH/UNICAMP, Campinas, 1978, mimeo). Carvalho notes that the concept of duality is essential to Rangel's investigation about the agrarian question and that it also defines his proposals for the transformation of Brazilian rural areas. However, as Carvalho's analysis is limited to the agrarian issue, he had neither the possibility nor the purpose of articulating all elements in Rangel's work in accordance with what one might call the basic organizing principle in his thought, i.e., the duality thesis.

seen how Gudin and the neo-liberal current employed the classical tradition, have taken note of Roberto Campos's theoretical eclecticism, and have observed the use of ECLA's structuralism by nationalist developmentalists. We have further noted that the theoretical foundation of the intellectuals who were linked to the PCB was Marxian historical materialism.

Rangel preferred to build his own theoretical model. His developmental theory was a creative adaptation of Marxian historical materialism and an original arrangement of elements borrowed from Smith's, Keynes's and Marx's economic theories.

We shall initially analyze the key element in Rangel's developmental theory: the duality thesis.<sup>4</sup> This thesis consists of a method of analyzing Brazilian history by which Rangel organized his interpretation of the historical meaning of the stage of the "development of productive forces" the country was supposedly going through. We shall next examine some elements that contribute to enrich this interpretation and supplement the foregoing thesis. At that point we shall highlight the affinities between Rangel's version and the Prebischian interpretation, so as to show that such affinities do not overshadow the differences in interpretation. Finally, we will examine one last important characteristic in Rangel's theoretical position, viz., his view that Brazilian economy, albeit underdeveloped and dualistic, does not escape the operational laws that are typical of capitalism, as its modern sector is a capitalist one.

#### i. The thesis of Brazilian economy's basic duality

The duality thesis, as we have noted earlier, is the key organizing element in Rangel's thought. Without it one can neither understand the rationale of his political stance concerning the questions of land reform and the Brazilian revolution, which were at the heart of the political and intel-

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(4) The thesis was written in 1953 and published in 1955 in Rangel, I., Dualidade básica na..., op.cit.

lectual debate of the early 1960s, nor the political determinants of his economic analyses.

Rangel did not disagree with Marxian historical materialism. He viewed history as a more or less defined series of stages, each of them corresponding to a given mode of production. He further acknowledged that a mode of production begins to change into a more advanced one when the relations of production cease to stimulate the development of the productive forces and begin to block it. But he felt that Brazil's mode of insertion into world economy, i.e., the fact that it had established itself as a complementary or peripheral economy demanded a critical assimilation of those theses. In the Brazilian case, the sequence of universal history — from primitive communism through slavery, feudalism and capitalism up to socialism — was reproduced in a distinct way from that of advanced countries, as far as Rangel could see. He claimed, for instance, that the country's history "does not accurately depict universal history, and especially the European one, as our evolution has not been autonomic and is not an exclusive product of its own internal forces".<sup>5</sup>

Rangel's adaptation of the Marxian perspective about universal history to the Brazilian case is made through the concept of a duality, which has a unique meaning in his works, being entirely distinct from the most common definitions given to the term. The analytical novelty in Rangel's conceptualization lies in the subdivision of the Marxian concept of "production relations" into "internal relations" and "external relations".

Based on the above subdivision, he formulated the thesis that Brazil's history has evolved through a sequence of simultaneous pairs of modes of production. Rangel did not give enough emphasis to this "law of simultaneity" in the somewhat confused text dating back to 1953 wherein he enunciated the duality thesis. This being, however, the basic idea in both his thinking and the duality thesis itself, we shall concentrate our summary on those aspects

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(5) Rangel, I., Dualidade básica na..., op.cit., p. 29.

that are most relevant to understand the aforementioned idea.

a. Brazilian historical dynamics distinguishes itself from classical cases in that its social, economic and political processes do not derive merely from the interaction between the development of productive forces and the country's internal production relations, but also from the evolution of the country's relationships with central economies. "External relations" are seen as determinants of the development of the internal productive forces, and therefore also of internal production relations.

This double determination — the evolution of internal and external relations — had as a basic result, in Rangel's opinion, not only the duality of all Brazilian economic institutions — latifundia, industrial and commercial firms, etc. — but also the duality of Brazilian economy as a whole.

From the perspective of understanding Rangel's views of the Brazilian historical process, the duality that concerns us most is basically that found in the economy at large. In his own words, the explanation for this duality is, that "by developing as a complementary or peripheral economy, Brazil must adjust itself to an external economy that differs from its own, so that the country itself becomes a duality".<sup>6</sup>

Let us take an example. According to Rangel, the internal relations of Brazilian latifundia in the early twentieth century were feudal ones. However, latifundia were devoted to producing export-gearred crops, stimulated as they were by the country's trade relations with the rest of the world. Centering around those relations, which were promoted by both national and international merchant capital, there emerged a whole capitalist "economic formation" or "mode of production". In urban centers, where there was a concentration of the apparatus of foreign trade activities — financing, transportation, communications, etc. —, capitalist relations of production were predominant.

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(6) Rangel, I., Dualidade básica na..., op.cit., p. 36.

In other words, there co-existed in the country a set of feudal relations of production in agriculture (latifundia) — which Rangel referred to as the economy's "internal pole" — and a set of capitalist relations in the sectors more closely related to international trade, globally termed the economy's "external pole", i.e., the pole linking the economy to the rest of the world. The idea of a simultaneity of two modes of production or two "dominant economic formations" was the pièce de resistance in Rangel's thesis of a basic duality in Brazilian economy. According to that thesis, each "formation", in turn, had a twofold nature, relating respectively to its "internal" and "external" relations. Latifundia, for instance, were seen as "internally feudal and externally capitalist" units,<sup>7</sup> by which Rangel meant that their internal relations of production were feudal, whereas in their relationship with the other dominant formation and the rest of the world they behaved as commercial companies. Moreover, by this double nature the two formations were said to interact:

"Duality is the fundamental law of Brazilian economy. We may state it as follows:

Brazilian economy is basically ruled at every level by two orders of tendential laws prevailing respectively in the fields of internal production relations and external production relations.

These two basic economic formations, each of them governed by its own laws, formulated with greater or smaller precision by universal economic science, do not merely coexist. They have made continuous pressure upon one another and are in permanent conflict. In the case of latifundia, for example, the capitalist market constantly presses for a change in the relations prevailing within such institutions, while the presence of production and productive factors (including man) within this capitalist market originating from latifundia changes their appearance. We thus currently witness a generalization of wage payments within the internal life of latifundia, as well as a

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(7) Rangel, I., Dualidade básica na..., op.cit., p. 30.

certain discharacterization of the wage payment system outside latifundia, given that laborers are expelled from them.<sup>8</sup>

b. A second basic aspect of the duality thesis is the unique argumentation about the movement of Brazilian history, i.e., the account of how the various modes of production succeed one another and form new pairs at every stage. As in the method of historical materialism, it is said that stages follow one another through the transformations taking place in production relations, which determine the development of the productive forces and are inversely determined by it.

Rangel described Brazilian history from the early nineteenth century onwards as a succession of three stages of dualities. In each of them the duality was composed of two domestic formations, one at the economy's "internal pole" (agriculture) and the other at its "external pole" (trade, services, government, industry, etc.). Each stage had been initiated by crises either in the sphere of "internal" or "external" production relations, those crises having decisively affected the development of productive forces:

b.1. The first duality, in Rangel's words, had begun in the first quarter of the nineteenth century, when the crisis in Portuguese colonization resulted in the Opening of Brazilian Harbours (1808) and the country's Independence (1822). This crisis played the historical role of freeing the economic system from the Portuguese metropolis' parasitic intermediacy, thereby unblocking the way for the action of international merchant capital and the establishment of a national merchant capital, both of which were to become levers of the development of productive forces in the nineteenth century. The first duality was composed of slavery in the economy's "internal pole" (slave-based farming) and merchant capitalism in its "external pole".

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(8) Rangel, I., Dualidade básica na..., op.cit., p. 32.



b.2. According to Rangel, the second duality began with the abolition of slave trade in the second half of the nineteenth century. Abolition determined a crisis in the production relations of slave-based farms and forced their transformation into "feudal latifundia" under the pressure of growing productive forces during coffee's expansion cycle. In this new stage, Rangel claims that the duality had the following composition: (1) in the "external pole", the pre-existing merchant capital continued to be the dominant formation; this is the pole in which future industrial capital was to emerge in embryonic form; (2) in the "internal pole", the dominant formation became the feudal latifundium formed after the collapse of slave-based farming.

b.3. The third duality had begun with the crisis in external production relations, whose major landmark was the depression of the 1930s. At that moment, the development of national productive forces is claimed to have been blocked by the international market retraction, which determined new and profound changes in Brazilian economy. The foreign commerce crisis induced a decline in merchant capital, as well as its substitution, in the external pole, by a new "formation": industrial capitalism. From then onwards, industry began its implementation side by side with the pre-existing dominant formation in the "internal pole", i.e., feudal latifundia. The latter were not essentially affected by the foreign crisis, which impinged rather on merchant capital, whose basic functions were gradually taken over by the state in the sphere of international trade, thus characterizing a change from economic liberalism into stage control over foreign commerce.

According to Rangel, upon each of the above transformations a new "dominant formation" emerged as a metamorphosis of the disappearing "dominant

formation" that had been undermined by the very development of the productive forces. Latifundia had emerged in the internal pole owing to the disintegration of slave-based economy under the pressure of international commercial expansion. The emerging industrial capital was the "offspring" of commercial capital, a result of the very diversification in the economy's "external pole" — government, the export-import system, and urban commerce. In the new stage, feudal latifundia — the dominant formation in the "internal pole" — were to be gradually undermined by the contact with urban capitalist development, i.e., by the transformations undergone by "external production relations".

The duality thesis, with its elements as described above, was formulated in 1953. In 1962, stimulated by the political and intellectual climate of the time and by the very evolution of his interpretation, Rangel was led to examine the political counterpart of the dynamics of duality. He claimed that "the Brazilian state cannot but reflect the basic duality of the economy and the society".<sup>9</sup> His central thesis was that the political superstructure follows the changes in the "dualistic" infrastructure in a movement that, as the one observed in the infrastructure itself, undergoes sudden violent ruptures:

"Political power, under such circumstances, is never exercised by one only ruling class, and rather by a joint front made up of two ruling classes that have solidary interests, but are simultaneously in conflict. In other countries, such coalitions appear at critical moments and are dissolved immediately the emergency is overcome. This is not so in Brazil, where the exclusion of one of the classes representing the duality in the political scene occurs only to elicit the appearance of another coalition, this time representing the new duality.

Under the circumstances, the transition from one regime into another does not involve — or has not involved, so far — the

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(9) Rangel, I., "A dinâmica da dualidade brasileira", Revista Brasileira de Ciências Sociais, July 1962, pp. 215-235. The passage quoted is on page 217.

seizure of power by any classes that are not part of the dominant coalition and the resulting overthrow of the latter. The transition is made by co-optation, i.e., through the exclusion of the more archaic elements by the ruling group itself and their substitution by other elements that are representative of the new ascending social forces".<sup>10</sup>

The two ruling classes, in Rangel's formulation, came from the "internal" and "external" poles of the duality. The duality of the first three quarters of the nineteenth century had been expressed by an agreement between the slave-based landholding class and the merchant class. The transformation of "slave-based" agriculture into "feudalistic" agriculture had brought a new partner into the pact — the class of feudalistic landholders, composed of the progressive elements of the extinct landholders class.

In the second half of the nineteenth century and early twentieth century there began to occur (as a side-product of foreign trade expansion) the establishment of a basis for domestic production geared to the international market, and the merchant class itself started to undergo a differentiation. Part of it began to invest in the industry, thereby forming a growing body of small industrialists. Their productive units, although small-scale ones and nearly always artisanal in character, were a kind of embryo of the future national industry, as well as the embryo of the future ruling partner in the "external pole":

"It follows that within the merchant class there emerged an initially minority group of industrialists who no longer had a view to foreign trade, but rather to production for the domestic market and the import substitution industry. For a long time this new economic and social formation acted as a progressive opposition within the merchant class without formally differentiating itself from it and still being jointly organized with it into Commercial Associations".<sup>11</sup>

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(10) Rangel, I., "A dinâmica da dualidade...", op.cit., p. 217.

(11) Idem, pp. 220-221.

According to Rangel, foreign trade stagnation in relation to the potential of the national productive forces had created conditions, already in the first few decades of the twentieth century, for the strengthening of this "special group of tradesmen". The Revolution of 1930 would thus have been a "homologation act" of the new power agreement which expelled the merchant class from the direction of national politics and was established as an alliance between the class of latifundia owners and the new industrial class.

One thus arrived at a decisive stage in Brazilian duality. As we have seen, such duality had emerged, in Rangel's formulation, from the circumstantial fact that Brazilian development occurred as a complementation to that of advanced economies. By the time this development began to be governed by an internal dynamics based on industrial production geared to the domestic market, the basis for the existence of a duality began to collapse and the "duality law" lost its validity. To Rangel, the stage currently in progress represented the end of a "way of being that had been peculiar to Brazil and that could be changed by no other means than a gradual approximation between the poles of the duality".<sup>12</sup> As production relations became homogeneous, with the transformation of feudalistic latifundia into capitalist units, one drew nearer to the last stage of duality in Brazilian economy, represented by the "parallel conversion of private capitalism into state capitalism, which is the seed of a future duality — state capitalism in external economic relations and private capital in the internal ones".<sup>13</sup> The new power agreement was to be made between capitalists and laborers. The latter, in their pursuit of a transition into socialism, could rely on the contingency that the economic development process demanded the establishment of state capitalism. The transition into socialism would thus represent the

(12) Rangel, I., "A dinâmica da dualidade...", op.cit., p. 233.

(13) Idem, p. 233.

end of Brazilian economy's basic duality.<sup>14</sup>

The duality thesis was the analytical support of Rangel's unique political stance relative to the agrarian question and the Brazilian revolution. It also pervaded his interpretation of the state's role in the development process, as well as his interpretation of inflation and the economic crisis of the early sixties.<sup>15</sup> Before going into those questions, however, we must complete our description of the basic analytical framework of Rangel's thinking.

## ii. Import substitution and the social division of labor

Shortly after writing his duality thesis, Rangel spent eight months at ECLA in Santiago during the year 1954, at which time he got into close contact with Prebisch's ideas. Unlike Furtado, however, and unlike most other Brazilian nationalist economists, who assimilated ECLA's theories as a

(14) Rangel, I., "A dinâmica da dualidade...", op.cit., p. 235.

(15) After the present text had been concluded, Rangel published an article titled "A história da dualidade brasileira" (The history of Brazilian duality) where he offered a clearer and more objective account of his theory than in any of his earlier writings. In this article, Rangel introduces two innovations: first, he combines the dynamics of Brazilian duality with Kondratieff's cycles. Thus, the first duality is said to have been installed in the descending phase of the first long cycle (second and third decades of the nineteenth century), and the changes from the first to the second duality and thence to the third one are located in the descending phases of Kondratieff's second and third cycles. Secondly, Rangel introduces a new idea about the occurrence of a fourth duality, which he claims to be about to start in the current descending phase of Kondratieff's fourth cycle. The pole under transformation is said to be the internal one, now changing from the situation of an "internally" feudalistic and "externally" merchant-capitalist pole into the more homogeneous condition of a semi-capitalist pole on both sides. The transformation of production relations in rural areas, which Rangel claims to have been under way for decades under the influence of the capitalist advance itself, should now gain a decisive impetus stemming from the probable strengthening of the internal financial system, thereby undermining the price of land and destroying both land monopoly and large landholders' power. To Rangel, this financial boom results from the need to find a feasible solution for the domestic crisis and the crisis in the balance of payments — a solution that should correspond to import substitution in the economy's production goods sector. (Rangel, I., "A história da dualidade brasileira", Revista de Economia Política, Vol. I, No. 4, October-December 1961).

basic tool for their analyses, Rangel merely incorporated some of their elements into his own analysis, or rather harmonized them with his own ideas. By that time, he had already laid down the theoretical foundations of his own interpretation, which was not a Prebischian one but a combination of his duality thesis with the ideas proposed by Smith, Marx and Keynes.

In 1955, Rangel made a series of conferences at IBESP introducing his conception of Brazilian economic development. His interpretation incorporated Prebisch's idea that the Great Depression of the 1930s had marked the beginning of a new stage in the international division of labor — the beginning of a continuous and irreversible process of industrialization through import substitution. This idea was perfectly assimilable into and even complementary to his duality thesis. Rangel also agreed to the interpretation that the strategic variable in Brazilian economy was foreign trade, which had determined growth in the preceding phase and, in the stage under way, was to be the motive power of the import substitution process. Regarding the dynamics of this process, Rangel even came to propose an interpretation that, although implicit in Prebisch's writings and vaguely presented in several of ECLA's works, was to receive a more elaborate version only years later, in a text written by M. C. Tavares.<sup>16</sup> The basic content of the interpretation of this dynamics appears in the following extract of one of Rangel's conferences:

"In short, import substitution not only increases the indiscriminate search for all goods and services, whether they be production or consumption ones, but also changes the specification of those goods and services. Alternatively, when the demand for a given commodity surpasses consumption in a country like our own, the first observable movement is an attempt to obtain a supplementation through imports. Therefore, import substitution, teleologically oriented as it is to reduce the pressure on the balance of payments, immanently holds the possibility of intensifying that pressure. This possibility materializes into a reality

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(16) Tavares, M.C., "Auge e declínio do processo de substituição de importações", Boletim Econômico para a América Latina, Vol. IX, No. 1, March 1964.

when substitution takes place under capitalist conditions.

Many of our economists are now awaking to a crucially important fact, some of them to regret it, since the basic mechanism of our development thereby seems to deny itself, in that it results in a formal frustration — in the attempt to solve the problem of deficits in our balance of payments, substitution actually aggravates those deficits —, and others to welcome it enthusiastically, as it discloses extraordinary possibilities of ulterior development".<sup>17</sup>

The idea that transformations in Brazilian economy are determined by the behavior of the country's international trade was explored by Rangel in an original way. He proposed to examine the effects of the economic system resulting from international economic cycles on resource reallocation and productivity, on the basis of Kondratieff's periodization. In Rangel's view, the ascending phases of Kondratieff's cycles (1787-1815, 1843-1873, and 1897-1913) were approximately equivalent to periods of resource allocation into export-oriented plantation activities. Descending phases were said to be periods of reallocation enhancing import substitution. Ascending phases would be periods of rise in labor productivity via specialization in export-oriented activities, whereas descending phases would have had distinct effects on productivity according to the type of resource reallocation specific to each of them.<sup>18</sup>

According to Rangel, during the first descending phase part of the slave labor previously engaged in export-gearred agriculture had begun to produce formerly imported articles at the manor house, the result being a reduction in the social division of labor and consequently a fall in the system's average productivity. This was thus the equivalent of an involution,

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(17) Rangel, I., Introdução ao estudo..., op.cit., p. 96.

(18) These ideas are present in a not very elaborate form in writings dating from the 1950s and 1960s. A text applying them to Brazilian history was written by Gilberto Paim and prefaced by Rangel himself (Paim, G., Industrialização e economia natural, Rio de Janeiro, ISEB, 1957). Only in a much later version of the duality thesis (in 1981) did Rangel integrate the concepts of duality and cycle ("A história da dualidade...", op.cit.).

an extension of what Rangel called "natural economy", whose productivity was low because labor was totally unskilled. In the descending phase of Kondratieff's second cycle, the impact of the international depression on the system's productivity had been nearly neutral, as the resources liberated from production to exports were transferred into the commercial production of import substitution goods. Therefore, in Rangel's view, the intensity of the social division of labor had been maintained by the movement of resources among skilled activities. The third descending phase, initiated around the decade of 1920, had resulted in a rise in the level of the social division of labor and in the system's productivity. According to Rangel, industrialization via import substitution, in its capacity as a continuous and irreversible process, was not only absorb the resources liberated by the export-gear agriculture then undergoing a crisis, but also assimilating labor force contingents engaged in "natural economy".

The Smithian notion of a social division of labor is a basic element in Rangel's conceptualization about the Brazilian economic development. That conceptualization, along with a perfect consonance between ECLA's and Rangel's views, also shows some peculiarities that are worth highlighting for their originality.

Both ECLA and Rangel started from the hypothesis that export-gear agriculture could not absorb labor from the one sector that was marginal to market economy — which Prebisch had named subsistence sector, while Rangel called it the natural economy sector —, given the insufficiency of the international demand for primary products. They further understood that economic development after the 1930s was a process of elevation of the system's average productivity provided by the transfer of labor from the marginal sector into sectors linked to the domestic market, whose expansion could be accounted for by industrialization via import substitution.

Rangel's was a very special way of presenting this idea, however. He started out from the notion that the structure of the Brazilian economic



system is formed by three large sectors or "strata": pre-capitalist natural economy (subsistence economy); capitalist market economy (industry, transportation services, commerce, governmental activities, etc., as well as commercial agriculture geared both to exports and the domestic market); and foreign trade or the "rest-of-the-world sector", i.e., the apparatus that puts national economy in contact with the rest of the world (foreign trade proper and special activities "in which foreign factors enter as a dominant element"<sup>19</sup>).

Economic development, according to Rangel, could be essentially understood as a result of the action of the second formation over the first one in response to stimuli originating in the third formation. In other words, economic development consisted of a rise in productivity resulting from the transfer of resources from natural economy (which, according to his estimates, embodied one-half to two-thirds of the Brazilian population) into market economy, such transfer ultimately deriving from events that took place at the level of the country's foreign trade relations.

A most interesting point about this conceptualization is that it provides the notion of productivity increases with a much wider meaning than is assigned to it in most conceptual writings of the modern economics of development, including Prebisch's. In those writings, productivity rises are essentially viewed as a result of the raise in "capital intensity" per worker, and to a lesser degree, as a result of the improvements in the educational level and the population's standard of living. In Rangel's analysis, even more so than in Furtado's, the idea of productivity rises centers around the concept of the social division of labor. Such rises would be not only a result of the intensification and improvement of work tools, as well as the im-

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(19) Rangel, I., Introdução ao estudo..., op.cit., pp. 36-37. "Natural economy" stands for rural and urban subsistence activities. In rural life, those activities form the essence of what Rangel termed the "rural complex". In his view, "the dissolution of the rural complex is a pre-requisite for an increase in the productivity not only of labor emigrating from the agricultural environment, but also of the labor force that stays there" (p. 58).

provement of workers' physical and technical ability, but also a result of the specialization process that accompanies the social division of labor. The "natural economy" sector, as explained by Rangel, is characterized by the absolute predominance of unskilled labor, with workers performing a countless number of tasks. This means that the latter never achieve a significant level of efficiency in those tasks, as their productive practice is fragmentary and implies a considerable waste of time in the transition from one task into another. The transfer of workers into market economy is said to be the essence of economic development for the twofold reason that workers become skilled and that their specialization incorporates modern work tools. Rangel thus made a careful use of the basic ideas of Adam Smith's treatise on the Wealth of Nations in conceptualizing Brazilian economic development. With this conception he probably meant to contribute elements that might enrich the prevailing interpretations about the problem of underdevelopment. It is also possible that he felt his duality thesis to allow for a more generic and comprehensive historical interpretation than the one provided by the ECLA school, which was based on an opposition between economies specializing in primary goods exports and economies undergoing an import substitution process.

The contrasts between the two historical interpretations are not explicitly covered by Rangel himself. As regards the analyses concerning the major actual issues occupying Brazilian economists in the period under study the situation is a different one: Rangel diverged completely from the positions adopted by all currents, including ECLA's, in his analyses about planning, the land reform, inflation, and the crisis of the early 1960s. At the root of such divergences we find an argument about the existence of idle capacity in Brazilian economy — an idea that had already figured in his writings of the mid-1950s.

- iii. Idle capacity, the operation of capitalism,  
and the use of Marx and Keynes

Rangel's analyses as applied to the actual issues of Brazilian economy rested upon the belief that the country had an idle productive capacity that was ready to be used, provided it were stimulated by adequate economic policy mechanisms. This view was not restricted to the crisis of the early sixties, as it might appear to readers familiarized only with his best known books, but can also be found in his writings of the mid-1950s. Once again, this aspect singularized him among the authors who analyzed Brazilian underdevelopment.

In the bulk of Rangel's works one may perceive that his attention to the problem of idle capacity and his analytical treatment of it have had two origins. One of them is his interpretation of the operation of capitalist economies. The other is his analysis of Brazilian development as a capitalist one, regardless of the context of underdevelopment.

Rangel felt that the major determinant of capitalist production was the market:

"It is an illusion to presume that a society always produces everything it can. The amount of production is externally limited by the state of the technique and working tools, and internally by the demand for goods and services. It follows that if an adequate drive to produce is not somehow generated within the economy, i.e., a stimulus to use the productive forces available, the latter cannot develop, because people are not induced to organize themselves in ways that may be more convenient to the application of the existing technical know-how".<sup>20</sup>

Moreover, he felt that capitalism's major contradiction lies in the antagonism between "the socialization of production and private appropriation".<sup>21</sup> Capitalist production as a production of exchange values motivated by the objective of attaining a surplus, and not by consumption needs, would therefore be limited by the population's reduced consumption capacity, which

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(20) Rangel, I., Introdução ao estudo..., op.cit., p. 21-22.

(21) Rangel, I., "A inflação brasileira", Economia Brasileira, Jan.-July 1962, p. 126.

does not expand in proportion to the enormous product expansion potential that is typical of the advanced stage of the social division of labor attained in capitalism. In consonance with modern American underconsumptionists like Sweezy and Baran, Rangel viewed capitalist economy as a system that generally operates under a regime of permanent excess capacity even in expansion periods, and that periodically expresses its contradiction in the form of "realization crises" that correspond to the inability to realize the surplus produced, owing to a lack of demand.

Keynes's theory, although formulated in a distinct language, was well adapted to this view of capitalist functioning. Already in his early writings Rangel acknowledged his acceptance of the central propositions in that theory, and as we shall see, employed some elements of Keynesian analysis in his interpretation of the Brazilian economic crisis of the early 1960s. However, his assimilation of Keynesian views occurred by means of a compatibilization with the underconsumptionist interpretation of Marx's economic theory — i.e., an interpretation based upon the idea that productive forces in capitalism are constrained by the demand shortage that results from the private form of appropriation of the outcome of the productive effort.

Rangel sought to examine Brazilian economy as a capitalist economy requiring the stimulus of market expansion to develop itself. This stance was not translated into a mechanical transposition of underconsumptionist theses to the analysis of the Brazilian case. In Rangel's understanding, Brazilian economy during the 1950s did not suffer from the problem of demand insufficiency that is typical of mature economies, because market expansion was assured by the very dynamics of the import substitution process, which in those days was the "primary motive power of development", i.e., the specific way in which "private capitalists have been induced to increase their investments".<sup>22</sup> The import substitution process was said to be cumulatively gen-

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(22) Rangel, I., Introdução ao estudo..., op.cit., p. 35 and chapter "O motor primário do desenvolvimento".

erating production and consumption expansion.

But this conclusion of Rangel's was not enough to divert his attention from national production's expansion capacity in relation to the existing demand. To begin with, we must note that industrialization itself was viewed by Rangel as the historical solution for the problem of the existence of idle resources — both in export-g geared agriculture and in "natural economy" —, which were generated by the insufficiency of international demand: "were foreign demand for agricultural products infinite, there would be no reason why we could not develop without industrialization".<sup>23</sup> It is worth recalling that, as we have seen, attention to the question of idle resources stemming from the crisis in foreign trade was the basis for Rangel's interpretation of the meaning of the post-1930 industrialization, beginning with his duality thesis. In his opinion, such industrialization had resulted from a change in the "external production relations" which allowed for the utilization of idle resources liberated by the agricultural crisis, i.e., which made it possible to develop the national productive forces. Industrialization represented not only a gradual absorption of idle resources from the exports sector and "natural economy", but also continually generated idle capacity within the new sector. As a process that developed in observance to the laws of capitalist production, there was no reason, in Rangel's view, why the size of the industrial branches then being established should be proportional to demand. Rangel's proposal for planning, which we will examine shortly, rested precisely on this conception, which can be found, for instance, in a statement he made at one of his conferences in 1955, in the context of a discussion about planning in Brazil:

"Development is attained when the production of those industries or activities that form the system's strong links is used to create the capital required by the industries or activities that

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(23) Rangel, I., Introdução ao estudo..., op.cit., p. 74.

form its weak links. (...) But this occurs only when the specific demand for goods and services consubstantiated in investments is geared to those industries or activities that have an unused capacity".<sup>24</sup>

In Rangel's view, the idle capacity existing in Brazil resulted from the fact that economic development presupposes imbalances, i.e., that economic progress is a movement between imbalanced situations.<sup>25</sup> However, as in advanced economies, idle capacity in Brazilian economy was said to correspond to a poor utilization of productive forces' developmental potential; unlike the situation observed in those economies, though, this insufficiency could be attenuated by means of an adequate developmental planning. Only in the 1960s did Rangel come to see Brazilian idle capacity in a new light, i.e., as resulting from a realization crisis whose characteristics were similar to the crises observed in advanced economies. He thus made way in his analyses for the utilization of elements borrowed from Keynesian theory and of the underconsumptionist version of the interpretation about the dynamics of capital accumulation.

Even so, according to Rangel, the existence of idle capacity in the throes of a realization crisis meant — as in the decade of 1950 — a proof of the expansion capacity of Brazilian productive forces. Investment opportunities were still enormous, so that idle capacity did not necessarily mean, as in advanced economies, a barrier to economic expansion, but rather a real possibility of growth, provided one adopted adequate economic policies. Rangel was thus far from being a "stagnationist": on the contrary, he was the most confident and optimistic of Brazilian developmentalists.

### 5.3. State Control over Foreign Trade and Planning

Rangel's proposals about state participation in national economic life are associated to his interpretation of the historical stage the country

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(24) Rangel, I., Introdução ao estudo..., op.cit., pp. 111-112.

(25) Idem, pp. 109-110.

was going through, as elaborated on the basis of his duality thesis. According to him that was a period of transition into industrial capitalism where the old "external production relations" that are typical of merchant capitalism in crisis situations were being replaced, in the economy's "external pole", by new relations that made it possible to expand the national productive forces. The crisis in the "external relations of production", initiated in the first few decades of the century and reaching a peak in the 1930s, had determined the transformation of foreign trade into a state-controlled activity. The growing state intervention in foreign commerce ever since represented the exchange rate's failure as a signalizer of efficient resource allocations. Rangel felt that in the modern international economic system, and therefore also in Brazil, exchange rates no longer reflected the relations among production costs in different countries.<sup>26</sup>

In his view, the Brazilian state had been pressed by a set of circumstances to intervene in the country's foreign transactions. But that intervention emerged as something merely incidental, entailed by actual processes. It thus had the meaning of a historically inevitable but politically unconscious phenomenon. Rangel's proposal was, that once it were understood as an unavoidable consequence of the crisis and an irreversible phenomenon, such intervention might be changed into a planned activity with the aim of accelerating the development of the national productive forces. Ever since the 1930s, foreign trade policies had consisted of a combination of exchange rate freezes — which, in face of inflation, were equivalent to a continuous valuation — and physical controls over imports. The system seemed to cater to the interests of export-gearred agriculture, in that it made its products competitive in the foreign market, and also to those of industrialists, in that it preserved the domestic market for final products and lowered the import costs of capital goods and intermediary products. In fact, however, it was

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(26) Rangel, I., Dualidade básica..., op.cit., chapter titled "O problema do comércio exterior brasileiro".

rather obstructing the development of national industry and economy as a whole, as it led to a waste in the use of national productive resources by making them more expensive as compared to foreign products, in view of the exchange rate overvaluation. To Rangel, it was thus preventing the installation of a heavy national industry, besides generating technical production arrangements that were unsuitable to the existing set of resources.<sup>27</sup> In Rangel's words, "in short, therefore, the entire process is translated into a substitution of national production by imports".<sup>28</sup> In order to replace the "bolting industry" (as he used to refer to final goods industries with a high competition level) by an "authentic industry" (heavy industry, that is), a reform would be required to "induce national producers, whenever possible, to provide themselves with national productive factors and have ever less recourse to foreign similars".<sup>29</sup>

In Rangel's view, that reform would be equivalent simply to the ordering of a historically unavoidable process of placing foreign trade under state control. Rangel claimed that such measure would not hinder the maintenance of liberalism in the domestic market. On the contrary, it would help protect the domestic price system from the disturbing interference of exchange rates that were stipulated for reasons alien to relative production costs.

The failure of both the exchange rate and the price system based upon it as signalizers of resource allocation was said to demand some planning action on the part of the state, specially in the field of international commerce. In the new stage, it should be incumbent upon the state to control and administrate foreign trade and exchange rate mechanisms according to a given plan, so as to achieve full utilization of national productive resources. In Rangel's theory, this meant administrating the new "external production relations" introduced by the foreign trade crisis so as to unfasten once and

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(27) Rangel, I., Dualidade básica..., op.cit., chap. "O problema do comércio..."

(28) Idem, p. 95.

(29) Idem, p. 97.



for all the shackles of old foreign relations, which in the first few decades of the century had obstructed the development of the national productive forces.

In expressing these ideas in 1953, Rangel did not clarify the exact content of the planning modality that would be desirable. However, his text was the starting point of his views on this matter, first because it portrayed planning as a historical need on the strength of the duality thesis, which also made him include planning within the sphere of foreign trade; and second, because he understood planning as a formula for using the idle resources available in the economy.

In his subsequent text, dated 1955, Rangel provided a very clear formulation of his conceptions. He entertained the belief that every developing economy generates imbalances in its productive basis, i.e., development entails the simultaneous appearance of "weak links" and "strong links". Building upon this idea, Rangel's major principle of economic planning was thus expressed as follows:

"In common language, the discovery of a weak link in the economy, whatever its origin, implies the discovery of an opportunity to invest. The purpose of planning consists of guiding as large a portion of the demand for investment goods and services corresponding to the use of this investment opportunity into activities or industries that are their antithesis, i.e., that form the strong links of the system — those that are capable of lowering their unit costs directly as a function of demand".<sup>30</sup>

To Rangel, the task of planning in the Brazilian case was extremely easy. Unlike Soviet planners, for example, "who had to draw up a hard and detailed balance to discover the weak links in the system, performing a job that could never be carried out without state ownership of the means of production, Brazilian planners have all of the system's weak links duly recorded

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(30) Rangel, I., Introdução ao estudo..., op.cit., p. 113.

and classified by order of magnitude and importance in the form of an extensive list of imports".<sup>31</sup>

In possession of this list of "weak links", the major research work should consist of surveying the cost curves of the industries already installed, for that is where inputs for new substitute industries should be searched for. The cost curves would reflect the relative availability of national productive resources — the strong links — and enable planners to hierarchize imports in accordance with the only acceptable criterion, viz., maximum utilization of abundant internal factors. At the top of the priority scale there should be, of course, investment projects concerning those products that might imply the lowest internal production costs per import dollar saved. In short, the system's "weak links", which Rangel felt to stimulate imports, would be strengthened by the utilization of "strong links", i.e., of the productive capacity and the most widely available productive resources.

When once those projects had been selected according to the criterion of "minimum cost per dollar saved", planners should go "from projects to plan". The "more or less numerous [list of] projects" should be grouped "according to their demands for labor, construction material and equipment". The passage from isolated projects into a plan would correspond to the time when, by means of succeeding approximations, planners came upon the most efficient path to development, i.e., the one that made best use of the idle capacity of the national productive apparatus:

"An isolated project means nothing. It is merely the stuff of which plans are made. In all probability, we will note that the demand created by projects themselves will stumble upon market shortages, and we know by now that each shortage tends to become a source of pressure upon the balance of payments. We shall thus seek to anticipate that pressure and give the necessary priority to those projects that correspond to the demand elicited by the projects themselves, i.e., to derived demand.

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(31) Rangel, I., Introdução ao estudo..., op.cit., p. 114.

(...) This, then, is the work of planning: making successive approximations always with the aim of assuring import substitution by both the shortest possible way and the lowest possible cost, and using for that purpose, to the largest possible extent, the unused capacity of national industry. This work should not stop even during the plan's execution".<sup>32</sup>

The enforcement of economic policies based on such type of planning, according to Rangel, would consist of applying three essential measures. The first one would be the state's direct execution of those projects relating to derived demand, not with "the purpose of becoming an industrialist itself, but rather to be ahead of the decisions to be made".<sup>33</sup>

The second measure concerns the state's provision of basic incentives to import substitution investments, i.e., the assurance of a profitable market for national manufacturers. This measure was ingeniously conceived of by Rangel. His idea was that the state, being in possession of knowledge about the internal costs of the various substitutive products, could enforce a policy of domestic market reservation that would assure a certain level of profitability on investments, while at the same time preventing the emergence of excessive profits. To achieve that end, it would be enough for the state to manipulate the exchange rate freely so as to stipulate a rate for each specific product. Lower-priced products would have correspondingly lower exchange rates. The result of such procedure would be that "the same instrument that had helped planning authorities discipline the monopoly implicit in market reservation, i.e., the power to manipulate the type of exchange rate applicable to each specific commodity, would likewise be useful in the case of those items which, given their expected production volume, could be locally obtained at lower unit prices".<sup>34</sup>

The third measure is analogous to the second one and concerns the need

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(32) Rangel, I., Introdução ao estudo..., op.cit., pp. 120-121.

(33) Idem, p. 121.

(34) Idem, p. 113.

to guide production towards exports so as to guarantee maximum availability of foreign currency. As in the case of import products, the measure consists of "the manipulation of the cruzeiro price payable per unit produced". The idea is that the state should stipulate for each and every export product a price such that one might produce an amount corresponding to the maximum expected revenue in foreign currency. It is precisely for the purpose of allowing a free manipulation of exchange rates that Rangel claimed it necessary to change foreign commerce from a formerly private activity into a governmental one. As we have seen, this was, according to his duality theory, the major institutional transformation required at the level of "external production relations" to speed up the development of a new stage in Brazilian history. Rangel maintained this view up to the early 1960s, by which time he began to feel that the major institutional reform required lay in creating an internal financial system so as to enable the emergence of national financial capitalism. As we shall see, the financial system in Rangel's analysis of the 1960s played the same role as did foreign trade planning in his analysis of the 1950s, i.e., the role of a developmental instrument in a planning modality guided by the principle of fighting the system's "weak links" through an activation of its "strong links".

At this point, we must note that such planning modality is quite distinct from both Roberto Campos's "sectorial planning", which served as inspiration for the Target Plan, and integral planning as advocated by ECLA. Rangel explicitly diverged from both. He felt that the Target Plan was an advance in terms of previous Brazilian administrative practices, as the mere juxtaposition of sectorial programs "entails in itself some problems of a global nature, and in so doing, paves the way for some really global programming".<sup>35</sup> Even so, when compared to ECLA's planning proposals, the Target Plan was viewed by him as "a retrocess, inasmuch as the work of the Joint

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(35) Rangel, I., Recursos ociosos na economia brasileira, Rio de Janeiro, Presidência da República, Conselho de Desenvolvimento Econômico, 1963, pp. 42-43.

BNDE/ECLA Group, of far superior level, is previous to it".<sup>36</sup>

But ECLA's programming, notwithstanding its merits for globally approaching the problem of resource allocation at the national level, was also misguided as per Rangel's interpretation. Its first mistake lay in the illusion of making an integral planning without considering control over the economic system's essential command levers, which, in Russia, had consisted of the socialization of the means of production, and in Brazil, as we have seen, was supposed to be the "placement of foreign trade under governmental control". In a clear allusion to ECLA, Rangel stated:

"In Brazil and Latin America at large there is an illustrious school of planners who aim to plan — or, to use their own favorite expression, to program — development without any control over such levers. Instead of deciding how much to invest in the cement industry, for instance, they seek to determine, through the construction of a complex mathematical building, how much ought to be invested, given certain assumptions — which, incidentally, are too numerous".<sup>37</sup>

The second mistake was to assume a given growth rate for national income and then program an efficient way to achieve that goal. To Rangel, on the contrary, planning should begin by drawing up a list of "the resources available, depending upon what effective control we may have upon them, and then, crowning our work, forecasting a certain increase in national income".<sup>38</sup> In 1955, Rangel addressed to ECLA the same kind of criticism as was later made by Hirschman to Rosenstein-Rodan & Nurkse's theory of balanced growth, as well as to ECLA's own conceptualization of programming. Rangel claimed that one of ECLA's mistakes was to presume that the economy went from a given state of equilibrium into another state of equilibrium, when in fact "the real promoter of development is one who uses an existing disequilibrium to

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(36) Rangel, I., Recursos ociosos..., op.cit., p. 42. This text, where Rangel criticizes sectorial planning and ECLA's planning technique, dates back to 1960 and was originally published in the book Apontamentos para o 2º Plano de Metas, Recife, Comissão de Desenvolvimento Econômico de Pernambuco, 1961.

(37) Rangel, I., Introdução ao estudo..., op.cit., p. 108.

(38) Idem, p. 109.

overcome it by means of development, but is careful to create another disequilibrium to replace the former one; or it is one who introduces elements of disequilibrium into an economy that is at rest, which is the only way to set it in motion".<sup>39</sup>

In the discussions concerning the elaboration of a Second Target Plan, around 1959-1960, Rangel's criticisms to ECLA's conceptualization took on a more vehement tone. He claimed that "an economic program that does not teach us how to recognize and convert into effective national output a part of the difference between the actual output and the potential output corresponding to unused productive capacity does not deserve to be termed a program".<sup>40</sup> Rangel felt that without realizing it, ECLA was endorsing reactionary views, notwithstanding the generally progressive and nationalist orientation of its performance. He even stated that, once the assumption of full capacity were removed, "the postulates on which [ECLA's] programming rests would lose their validity, disclosing the unscientific, anti-progressive, anti-nationalist, and anti-popular character of such a construction".<sup>41</sup> In essence, Rangel felt that "the early attempts at programming give too much emphasis to capital accumulation as a means of raising productive capacity"; they therefore eventually demand two things from the nation, either alternatively or simultaneously: "the restriction of consumption and/or the sacrifice of sovereignty attributes with the aim of obtaining a net inflow of resources for a while". This was said to mean "killing popular enthusiasm for the country's economic development, thereby viewed as contradictory in terms of the things that are dearest to the people".<sup>42</sup>

To Rangel, a program based on the purpose of using Brazilian economy's idle resources represented, in the decade of 1950, the basic reform that would

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(39) Rangel, I., Introdução ao estudo..., op.cit., p. 108.

(40) Rangel, I., Recursos ociosos..., op.cit., p. 63.

(41) Idem, p. 71.

(42) Idem, p. 62.

allow for a full national development. All unnecessary dependence on international merchant and financial capital would come to an end, thus freeing the nation from imperialism and allowing for both growth and continuous wage raises.

Aside from that, Rangel's unlimited confidence in the practice of planning, which he viewed as "the most universal and important fact in our era", contributed, in the decade of 1950, to his developing a belief that the basic institutional transformation of the historical stage under way should be the organization of the governmental planning apparatus.<sup>43</sup> During the 1960s, his emphasis was displaced onto the idea of creating a national financial system, which, as we will shortly observe, was regarded by him as the basic solution for the prevailing crisis. In both periods, Rangel's top priority issue was claimed to be the activation of levers for the development of the national productive forces. For that purpose, he did not feel that the national agrarian structure represented an important barrier. This is what we now set out to examine.

#### 5.4. The Agrarian Question

Rangel considered the agrarian question from an altogether distinct perspective than that of the remaining Brazilian leftists. The basis for his interpretation was his theory of development, particularly the duality thesis and the analysis of economic and political history guided by it.

As we have seen, the thesis of a basic duality in Brazilian economy is a theory about the simultaneous existence of two modes of production throughout the country's history, as well as a theory of the "non-surgical" transformation of those modes of production by virtue of the interplay of contradictions between the development of productive forces in "internal" and "ex-

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(43) This is precisely the reason why Rangel also devoted himself to a reflection about planning techniques. Regarding this topic, he wrote Elementos de economia do projetamento, Salvador, Livraria Progresso Editora, 1960.

ternal" production relations. It is also a thesis about the twofold nature of "all our institutions and all our categories". In the specific case of latifundia, these were feudalistic units when viewed "from the inside". Viewed "from without", however, they were capitalist units and behaved like commercial firms.

In other words, when applied to the examination of the agrarian question, the duality thesis stated, along with the Brazilian left wing, that the countryside was feudalistic, but denied this characteristic the conventional meaning of an obstacle to the development of capitalist productive forces. Viewed "from without", from the vantage point of their role in the capitalist developmental process, feudal latifundia were satisfactorily performing the functions demanded by that process under Brazilian conditions.

According to Rangel, the new stage in Brazilian development corresponded to the simultaneous establishment of a modern industrial economy and the dissolution of the archaic rural productive structure. The agrarian crisis was defined in accordance with this view. It was a crisis originating in the adjustment of rural production conditions to the twofold contingency of a stagnation in international demand for its export products and the development of industrial capitalism.

As per Rangel's developmental theory, in the descending phase of Kondratieff's first cycle, "natural economy" (i.e., the archaic share of the Brazilian rural complex) had been strengthened; in the descending phase of the second cycle, the degree of the social division of labor had been maintained through the transfer of labor into urban commercial activities. The phase initiated in the 1930s corresponded, first of all, to a gradual absorption (by activities connected to the domestic market) of all the "rural overpopulation", i.e., of all labor surpassing export activity needs. The population engaged in "natural economy", whose numbers were increased by the stagnation in the country's foreign trade, was being transferred into industrial production and the production of agricultural goods for the domestic



market. Secondly, Rangel regarded that phase as corresponding to a gradual transformation of feudalistic production relations into capitalist relations. This transformation stemmed from the very interaction between agricultural life and capitalist development, in a process that was gradually undermining the foundations of feudalistic latifundia.

To Rangel, therefore, the agrarian crisis meant both the gradual dissolution of the Brazilian "rural complex" and the suppression of the mode of production prevailing in the countryside, which was a feudalistic one. It was a crisis triggered by transformations at the level of the agricultural sector's "external production relations": it resulted from foreign trade stagnation in relation to the national export production capacity, as well as from the industrialization process, which was in itself — just like the agrarian crisis — a development of that stagnation. In short, capitalist development changed the original agrarian crisis, which was expressed in the overproduction of coffee and other export products, as well as in the existence of a rural "overpopulation", into a transitional agrarian crisis on the way to capitalism. Rangel claimed that the pre-existing "rural complex" was progressively dissolved by that crisis, making way for a growing homogenization of labor productivity within national economy. At the same time, production relations at the countryside were transformed, capitalist relations being generalized throughout the economy.

The aforementioned transition could be slow and gradual, simply because the pre-existing agrarian crisis raised no serious obstacles to the development of capitalist productive forces. It was possible, on the one hand, to liberate a huge labor contingent from the "natural economy" sector, which was reinforced by the crisis in export-gearred plantations. And on the other hand, there was a possibility of complying without much effort with the demands for food products and raw materials by urban industrial development. The fact that, "internally", latifundia had feudalistic relations was no barrier. Just as, in the preceding phase, latifundia had responded to

stimulation from international demand with a substantial production expansion, it responded adequately to stimuli from the domestic market in the current phase. This was done by the mere substitution of export-oriented crops by an output geared to the domestic market, a step that required no major transformation: it would be enough for latifundia to go on behaving, as in the former phase, like capitalist firms. In one of his many references to agriculture's capacity to comply with demand expansion, for example, Rangel stated that whenever "favorable conditions were created for the production of goods oriented to the domestic market, agriculture showed a prompt reaction, thereby showing that the alleged supply inelasticity is a sheer myth. (...) It all depends on the conditions for the products' commercialization".<sup>44</sup>

Rangel acknowledged that, regardless of that flexibility, there was a coexistence of vast regions with excessive labor and overpopulation and regions with insufficient labor and a shortage of certain agricultural products. But he added that this amounted only to an "agricultural problem", i.e., it was an "improperly agrarian" problem in that its solution did not require substantial changes in the landed property structure. The solution lay in the adoption of policies encouraging the production of scarce goods, such as credit support, technical assistance, introduction of minimum-price schemes, and special stimulation to labor transfers among agricultural regions.<sup>45</sup> Thus, from within the agricultural sector itself there emerged a solution for the original crisis, with the support of the capitalist domestic market.

The agrarian crisis also corresponded to a phase when room was gradually made within the agricultural universe for industrial products. This insertion occurred only parallel to the more or less slow dissolution of "natural" or subsistence economy and to the gradual transformation of the

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(44) Rangel, I., A inflação brasileira, São Paulo, Brasiliense, 1978, p. 90.

(45) Rangel, I., "A questão agrária brasileira", Recife, Comissão de Desenvolvimento Econômico de Pernambuco, 1962, mimeo, pp. 6-8 and 31-41.

prevailing "share-cropping" relations into a wage labor system. But according to Rangel, not even in that respect did the agrarian structure represent an obstacle to industrial development. Under the specifically Brazilian conditions, industrialization could do without the potential consumer market represented by the majority of the rural population, as it was carried out as a response to import capacity insufficiency. The very dynamics of the import substitution process, in Rangel's opinion, created a continuous expansion of the national market for domestic goods, thereby doing without any transformations in the agrarian structure.

In his analysis of the economic crisis of the 1960s, Rangel first saw in the agrarian crisis an obstacle to the dynamics of Brazilian capitalist development. Thanks to that crisis, Brazilian capitalism was said to "develop under the conditions of an exorbitant industrial reserve army whose effect is to raise the system's rate of exploitation".<sup>46</sup> As a consequence thereof there was a fall in the system's consumption propensity, and thence a realization crisis. Rangel felt that the land reform was "one of the ways, and the most natural and obvious one" to achieve an income redistribution capable of increasing consumption and reactivating the economy. However, he also felt that "nothing can be as deceitful as expecting the bourgeoisie, linked as it is to latifundia even by blood ties, to break its power agreement with large landholders".<sup>47</sup> Moreover, he thought that neither rural nor urban workers were moved to engage in that struggle. The peasant population was "constantly losing its more active and unsatisfied elements, who migrated to the cities".<sup>48</sup> As for urban working masses, they "are led by life's merciless logic to struggle for the solution of their urban problems as proletarians or quasi-proletarians".<sup>49</sup>

(46) Rangel, I., A inflação brasileira, op.cit., p. 39.

(47) Idem, pp. 46-47.

(48) Rangel, I., Introdução ao estudo..., op.cit., pp. 108-109.

(49) Rangel, I., A inflação brasileira, op.cit., p. 47.

To Rangel, therefore, the country's balance of political powers would not permit a successful struggle for the land reform. On the contrary, the agrarian question was felt to divide factions that were allied in the major political struggle of the time — the struggle against imperialism. In this respect, even latifundia had diverging interests in the 1960s.<sup>50</sup> The solution for the economic crisis would not lie in a land reform, but rather in the creation of a national financial system that was to represent, as we shall see later on, the new fundamental institutional lever for the development of the national productive forces. This was also expected to be the way out for the agrarian crisis itself. Even as late as in the 1960s, Rangel held on to his interpretation that the solution for the agrarian crisis would come from outside agriculture, i.e., it would result from the development of industrial capitalism, which was permanently undermining the foundations of feudalistic latifundia and overdetermining new capitalist production relations.<sup>51</sup>

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(50) As we have seen earlier, large landholders were viewed by Rangel as the major partners in the ruling coalition that had been in power since the decade of 1930, and they supported industrialization for the sake of their own interests, inasmuch as industrialization allowed them to attain the necessary expansion of the domestic market for agricultural products, thus compensating for foreign market stagnation. In the conjuncture of the 1960s, large landholders were potential allies of the industrial and labor classes in the struggle against imperialism. In financing Brazilian imports through suppliers' credits, imperialism facilitated the import of capital goods to the detriment of national industry; on the other hand, it made export expansion seem unnecessary, thanks to which the class of landholders failed to penetrate new markets in African and socialist countries. Rangel thus felt that international capital was a competitor of both national industry and export-gearred agriculture (Rangel, I., A inflação brasileira, op.cit., p. 47).

(51) In Rangel's view, an evidence of the weakening of feudalistic relations lay not only in the existence of a landed property market, which was an unconceivable element within the feudal system, but also in the probable future tendency toward a fall in land prices. This fall was expected to result from land supply expansion owing to the advance of agricultural frontiers and the rise in productivity, as well as to the emergence of a financial market that would attract resources formerly invested in land speculation (Rangel, I., "A questão agrária brasileira", op.cit., pp. 48-49 and 53-54).

### 5.5. Inflation and Crisis<sup>52</sup>

The inflationary question found no room in Rangel's analyses up to 1962. When he finally expressed his views in this respect, he again did it, as with other subjects, in an independent way, diverging from the currents of thought then debating the question.

His position is likely to have been elaborated in his discussions about planning and idle capacity. In a text dated 1960, for instance, he questioned the type of investment planning which started from a given sum of pre-established financial resources, arguing that one must "invert the terms of the problem, consider first of all the ways and means to expand the national physical product, and subordinate the treatment given to financial problems to the decisive question of mobilizing idle capacity"; he further stated that "the efficacy of monetary solutions is gauged, after all, by their actual effects".<sup>53</sup> It was doubtlessly by observing the indicators of the economic system's behavior and by being continually concerned with the generation of idle capacity that, around early 1962, Rangel reached the conclusion that the economy was in a recessive conjuncture, in the throes of a realization crisis. At the same time and in consonance with this interpretation, he formulated an altogether original analysis of the Brazilian inflationary phenomenon.

Let us begin by examining his interpretation of the crisis. In the first paragraph of his "Outline of a program for the forthcoming quinquennium", Rangel stated:

"In Brazil 1962, the problem of idle capacity emerges as the major difficulty to be overcome. It occurs in the main export activities, in the consumption goods industry, and by now also in the industrial

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(52) For a more extensive and detailed analysis of Rangel's views about inflation and crisis from a markedly Kaleckian perspective, see Paulo R. Davidoff C. Cruz, Ignácio Rangel, um pioneiro..., op.cit.

(53) Rangel, I., Recursos ociosos..., op.cit., p. 37.

production goods sector. In other words, the system tends to generate an insufficient overall demand for the total supply of goods and services it can already control".<sup>54</sup>

According to Rangel, idle capacity reflected a realization crisis resulting from the increasingly high rate of exploitation of Brazilian economy. In his view, "overpopulation" — i.e., the labor force that is cast out of market economy by the agrarian crisis — put a negative pressure on wages and made possible an extremely high exploitation rate. The result thereof was a generalized insufficiency in the demand for consumption goods as compared to production capacity, i.e., an underconsumption crisis. The existence of a labor legislation stipulating the minimum wage payable, employment stability based upon length of employment, etc., as well as the government's policy of granting spoils, helped preserve a certain minimum mass of wages and attenuate the problem. "Even so", however, "that part of the surplus that remains in the hands of capitalists and proprietors is not only excessive, but likely to become still more excessive as labor productivity increases without a concomitant increase in wages".<sup>55</sup> The actual counterpart of this excess is the generation of idle capacity, which in this context "corresponds basically to non-realized surplus, which denounces a disproportion between the productive forces and production relations".<sup>56</sup>

In Rangel's opinion, therefore, those who interpreted inflation and the crisis as evidence of an insufficiency in savings and an excessive consumption demand were mistaken:

"Brazil is, in fact, a country with an archaic agrarian structure and a highly inequitable income distribution. It would therefore be most surprising if its average consumption propensity were high, and this is indeed not so. If savings — a mere heading under which we do the

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(54) Rangel, I., Recursos ociosos..., op.cit., p. 109.

(55) Rangel, I., A inflação brasileira, op.cit., p. 55.

(56) Rangel, I., "A inflação brasileira", Economia Brasileira, op.cit., p. 125.

accounting of investment values in a given period — do sometimes decline it is because investment opportunities disappear, the rate of capital accumulation is reduced, and as a result thereof income diminishes, thus allowing for plenty of idle capacity to accumulate within the system".<sup>57</sup>

Rangel felt that both the monetarist and the structuralist interpretations ensued from a basic failure to realize the nature of the recessive situation the country's economy was going through. Both currents ended up emphasizing the inadequacy of savings or the shortage of capital, precisely in a situation where the opposite was true. The structuralist interpretation, as compared to the monetarist one, was said to have the merit of searching for the causes of inflation within the productive structure. However, by viewing economic development as incompatible with stabilization, given the existence of foreign and sectorial bottlenecks, it eventually incurred monetarists' essential mistake of assuming that there was supply inelasticity in the country's economy. This way, structuralists could offer no theoretical resistance to monetarist formulae in economic policies. They gave in to the idea that the country needed foreign capital to provide for internal savings in a situation of excessive savings. They also gave in to the idea that suppliers' credits were necessary to provide the country with scarce foreign currency to import equipment and raw materials, when in fact the purpose of such loans was, in Rangel's view, to grant competitiveness to foreign products, to the detriment of the domestic heavy industry. By failing to realize that the country was already fairly able to supply several of the formerly imported goods, they did not see that the "foreign bottleneck" was nothing but a myth, specially since the country could already count on new markets in Africa and some socialist countries to expand both exports and import capacity. Moreover, structuralists were claimed to have no satisfactory re-

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(57) Rangel, I., "A inflação brasileira", Economia Brasileira, op.cit., pp. 124-125.

plies to the formulation advocating wage contention to unburden an allegedly excessive demand and accelerate capital accumulation.

Divergences did not end there. As we have seen earlier, structuralists did not disagree with monetarists in regard to the argumentation that inflation is detrimental to the economy, as it generates distortions in resource allocation. They simply believed that, under Brazilian structural conditions, it was impossible to attain development without inflation. And, given that the major goal was economic development, they felt that sacrificing it for the sake of stability was a tragic mistake. Hence their systematic opposition to stabilizing policies.

In principle, Rangel acknowledged the correctness of the unanimous view that a certain amount of stability is advantageous to the economic system's operation.<sup>58</sup> Nevertheless, he claimed that the recessive period the economy was going through made it necessary to await a more favorable occasion to put in practice a stabilization program, even if it were formulated on the strength of a correct understanding of the causes of the inflationary phenomenon. To Rangel, in the prevailing recessive stage inflation was playing a helping role in the economy. Before we examine this unique interpretation, let us briefly review Rangel's account of that phenomenon.

Rangel claimed that the main focus radiating price rises in Brazilian economy was the operation of the apparatus for commercializing agricultural products geared to the domestic market. That apparatus was said to be in a privileged position to manipulate both agricultural supply and prices. It was composed of a set of oligopsonistic-oligopolistic agents who, relying on

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(58) In A inflação brasileira, Rangel makes the following proviso on p. 35: "And let the reader not be alarmed. The defense of inflation implicit in the foregoing pages is by no means a sign of adherence to it, but only a starting point for the definition of a monetary and economic policy that may actually render the economy less dependent upon inflation and therefore permit the execution of the goal posited in the Triennial Plan: to advance towards monetary stabilization through the maintenance and eventual increase of Brazilian economy's development rate" (op.cit., p. 35).



the involuntary help of official supply agencies, eventually organized themselves as though they were monopsonists-monopolists. They took advantage, on the one hand, of the low price and income elasticity in the demand for agricultural products, and on the other, of the high price elasticity in the supply of the same goods:

"In other words, by manipulating producers' prices and subjecting producers to erratic commercialization practices, oligopsony-oligopoly continuously depresses and disorganizes production, thereby rendering it scarce; on the strength of this scarcity induced by its own action, it takes advantage of demand inelasticity, which leaves consumers defenseless, in order to impose extorsive and ever increasing prices upon them, thus dragging behind them the entire national price system".<sup>59</sup>

Rangel believed that this was the essential anomaly in the price-establishing mechanism that triggered the process whose final result was general inflation. In order to make up for the rise in food prices — an incompressible item in the working classes' consumption package —, workers were forced to reduce their consumption of other commodities. This meant that "some branches of production will be surprised at noting a drop in the demand for their products, which will disrupt the economic and financial equilibrium of the firms concerned (...) [These, in turn,] will begin to exercise pressure upon the banking system and force it to relay that impulse to the emitter system, i.e., the state itself".<sup>60</sup>

Three other anomalies were also claimed by Rangel to contribute to inflation: the oligopolistic structure of large Brazilian industries, the non-existence of state control over public utility services, and the exchange rate instability stemming from the erratic stipulation of prices in the exports sector.<sup>61</sup> The set of actual factors that were typical of the Brazilian

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(59) Rangel, I., A inflação brasileira, op.cit., p. 90.

(60) Idem, p. 85.

(61) Idem, pp. 93-99.

productive structure and its relations of property, and not currency issues, was the actual cause of inflation in the country. Rangel claimed that currency issues were not the starting point of inflation, but rather its arrival point, its "culmination". As we can see, his was a "cost-push" type of diagnosis of inflation in the spirit of the labor left wings of advanced countries — a fact that again distinguished him from his fellow economists.<sup>62</sup>

This original interpretation resulted from Rangel's effort to understand the interaction between monetary and real processes in a conjuncture he viewed as recessive, with a predominance of idle capacity in all of the country's major sectors of activity. From the same effort there also resulted his no less original conclusion that inflation should be combated only when the country entered a new expansion phase. In the conjuncture of the time, it played two roles that were essential for development to be resumed. First, it performed the function of reducing the cyclic crisis:

"Inflation is necessary because it elicits a 'rush toward material goods' (...) or, to use a Keynesian terminology, because it reduces the 'preference for the system's liquidity'. In other words, a substantial share of the surplus retained in the hands of high income classes, instead of being kept in monetary form as a net resource, as it would be natural and logical to happen, is employed in the acquisition of fixed assets, though these do not correspond to any actual need and in fact correspond largely to the creation of new installations in activities that already show idle capacity".<sup>63</sup>

According to Rangel, there was a negative marginal capital efficiency in the recessive phase the country was going through, as evidenced by the general occurrence of negative real interest rates. Under such circumstances, inflation worked as an inducer of rises in the system's "capital immobiliza-

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(62) Regarding the effect of capital concentration on prices, Rangel argued that the projects for new enterprises had been dimensioned at a far higher level than that of the demand and were therefore operating at a high average cost. Such industries, "depending upon the higher or lower level of concentration and the greater or smaller price elasticity in the demand for their products, are a permanent fulcrum of automatic price increases" (idem, p. 97).

(63) Idem, p. 78.

tion rate". As a defense against the "inflationary erosion of money", the affluent classes employed their resources "in capital immobilizations that are difficult to justify in economic terms". This way, there was a rise in the expenses incurred to build up stocks, in civil construction, and in the acquisition of conspicuous consumption goods. Rangel concluded in a rather Keynesian-like way that the final result was positive, for should resources be kept in monetary form, there would be a "reduction in the general level of the economic system's activity by an amount that would be a multiple of the resources withheld".<sup>64</sup>

A close reading of Rangel's texts shows that the author distinguished two paths leading to rises in the system's "capital immobilization" rate. Besides individuals' and firms' direct applications of their idle monetary balances, Brazilian economy witnessed an increasing channelling of resources through an expanding financial system. To Rangel, this was a paradoxical phenomenon, as one could not expect an economy with a preponderance of negative marginal capital efficiency to provide adequate conditions for the expansion of a financial system. The explanation for the paradox could be inflation itself, as it allowed for the occurrence of negative real interest rates. Inflation was thus said to generate the conditions to attract two essential elements into the financial system: a supply of idle monetary resources that accepted negative rates as a means of escaping the inflationary erosion of money, and a demand for investment capital that became profitable only in view of the negative interest rates.

Thus, besides attenuating the impact of the crisis, and notwithstanding the recessive conjuncture, inflation was facilitating the domestic financial system's growth, which in Rangel's interpretation was indispensable for resuming development. In his formula to overcome the crisis, the structuring of a domestic financial system was precisely one of the two basic ele-

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(64) Rangel, I., A inflação brasileira, op.cit., p. 78.

ments in economic policies, the other one being support to the expansion of the system's "weak links" with the help of its "strong links".

The final solution for the crisis was said to lie in the investment of capital in the economy's "backward" sectors, i.e., in basic public utility services such as electric power supply, water and sewage systems, railway and maritime transportation, port and storage infrastructure, urban and interstate communications, etc., as well as in steelworks and the supply of liquid, solid and gaseous fuels.

According to Rangel, the country had the basic capacity for the implementation of those sectors. From the point of view of real resources, investments would represent the use of surplus labor and the purchase of commodities manufactured by industries with plenty of idle capacity. They therefore meant a way out of the crisis in which industry and the economy as a whole were immersed. From the point of view of financial resources, investments would mean a golden opportunity for application of the real and potential surplus generated in activities then undergoing a crisis. It is interesting to note that the essence of the idea was identical to the one that guided Rangel's considerations in 1955 about the basic task of economic planning, i.e., the idea that development is achieved by using the system's "strong links" to settle the problems of its "weak" ones. Back in those days, Rangel felt that the basic institutional lever required to make accelerated growth possible was planning based on a state monopoly over foreign trade. In the new phase, the basic lever was felt to be a financial system that could allow for capital transfers from sectors showing a surplus to deficitary ones.

The structuring of such financial system, however, was "but one of the conditions required to solve the problem. The second one consists of restructuring incipient activities so as to provide them with a new economic-financial equation".<sup>65</sup> For that purpose, a reform must be made in public

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(65) Rangel, I., A inflação brasileira, op.cit., p. 77.

service charges so as to assure the profitability of those activities corresponding to new fields of capital application.

#### 5.6. The Historical Meaning of the Establishment of a National Financial System

The structuring of the national financial system had a very special historical significance to Rangel. It sanctioned the establishment of national financial capital, which in terms of his duality thesis corresponded to the country's entry into an advanced phase of the last dual stage, begun in 1930. The economy would now develop through an endogenous dynamics, better conditions being created for the productive system's growing homogenization, i.e., for a swift overcoming of its dual character:

"Under such circumstances, the organization of a stock market and of a strong financial capital associating banking and industrial capital emerges as a decisive problem. In essence, the point is to assure full employment of the already existing industrial apparatus, a step that can be taken only by the reconstruction and expansion of major public utility services — the last backward sector in the economy. This, as a task to be performed in the immediately forthcoming period, will do away with the problems of the power agreement homologated in 1930. When once this has been done, Brazil will count on all component elements of a modern capitalist economy, viz., a vigorous agriculture already in full transition into the capitalist mode of production, a vigorous light industry, a heavy industry capable of assuring growth to all of the economy by the use of national means, and modern public services".<sup>66</sup>

As we can see, Rangel's reformistic platform left out the restructuring of the landed property system for considering it both historically unnecessary and politically unfeasible. The land reform would be an inevitable result of capitalist development, and not a pre-requisite for it. For the purpose of taking development to its ultimate consequences, the really

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(66) Rangel, I., A dinâmica da dualidade..., op.cit., p. 223.

paramount reform must take place in the financial structure and in public services. Moreover, in the historical stage under way, Rangel felt that large landholders were still potential allies in the major political struggle of the entire Brazilian population, both against the imperialism of international merchant and financial capital and against its internal ally — the old national merchant class.

Large landholders, in Rangel's opinion, were interested in the establishment of governmental control over traditional foreign trade, where national and international merchant and financial intermediacy operated in accordance with advanced countries' interests. They were also interested in governments that might secure markets for their products in socialist countries, contrarily to merchant capital's ideology. And they were further interested in pushing the country toward this end, which had not been achieved as yet simply because international financial capital poured foreign credits into the economy, especially in the form of suppliers' credits.

As we have seen, Rangel regarded such credits as superfluous to national economy from all points of view, besides considering them detrimental to the domestic capital goods industry. In this sense, he felt that the strengthening of national financial capital and the suppression of the evil influence of foreign capital and its domestic ally, the merchant class, should impose themselves with the support of the two major partners in the 1930 power agreement — large landholders and industrialists. To achieve that goal they must also rely on the support of the working classes, interested as these were in the economic development currently hindered by imperialism and its internal representatives.

To Rangel, then, that was not the right time for a mobilization of the working classes around the land reform, let alone a socialist revolution:

"Now, Marx himself warns us against playing with the idea of changing the regime, as this does not take place arbitrarily, but rather when the old regime can no longer hold within itself the productive forces

it has roused and continues to rouse. Our 'impatient' leftists had better ponder over this point".<sup>67</sup>

The emergence of national financial capitalism, whose starting point, according to Rangel, had been the creation of a domestic production goods sector, marked, on the one hand, "the final crisis in the old economic relations with foreign countries".<sup>68</sup> On the other, it represented the motive power behind a sharp domestic capitalist expansion which brought closer "the end of the pre-capitalist era in the internal pole of the economy".<sup>69</sup> With the homogenization of production relations a mature stage would be reached in Brazilian duality, in the form of state capitalism. That the development process demanded the establishment of state capitalism was a victory for workers, who, in that last phase of the duality, could take part in the new power agreement to be made with capitalists in the struggle for a transition into socialism.

## 6. Summary Table of Brazilian Economic Thought

### (Active currents in the period 1945-1964)

In the first part of this work we have presented a conceptual mapping of Brazilian economic thought in the period 1945-1964. Our exposition has been organized on the basis of the concept of developmentalism, defined as an industrialization process relying on governmental planning and support. This concept has allowed us to identify five major currents of thought, viz., three developmentalist currents, a neo-liberal one, and a socialist one.

As we have seen, such currents were not distinguished merely by their understanding of the way to administrate the Brazilian economic process. They also based their interpretations upon distinct analytical tenets. And they

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(67) Rangel, I., A inflação brasileira, op.cit., p. 113.

(68) Rangel, I., A dinâmica da dualidade..., op.cit., p. 234.

(69) Ibid.

assembled mostly in specific institutions, forming their own diffusion agencies.

The summary table presented in the two following pages is a condensation of the conceptualizations described in the first part of this work. The column headed "Basic economic project" is the key to understanding the table, as the organizing category of our exposé — i.e., "developmentalism" — is, as we have seen, definitory in terms of such economic project.

In terms of the organization of the present work, the summary table is a transitional instrument between parts I and II. Besides summarizing Part I, it allows us to clarify the concepts on the basis of which we have arranged the chapters covering the evolution of Brazilian economic thought, which is the theme of Part II.

Following the summary table on the currents of economic thought and for the sake of contrast, we have also included a summary of the basic characteristics of Ignácio Rangel's thought.



The main currents	Main nuclei	Main Economists	Main vehicles of expression	Theoretical orientation	Basic economic program	Basic Thesis	Interpretation of the growth process
NEO LIBERAL	<ul style="list-style-type: none"> <li>Fundação Getúlio Vargas,</li> <li>Confederação Nacional do Comércio,</li> <li>Associação Comercial de São Paulo,</li> <li>Conselho Nacional de Economia (CNE)</li> </ul>	<ul style="list-style-type: none"> <li>Eugênio Gudin</li> <li>Octávio G. Bulhões</li> <li>Dênio Nogueira</li> <li>Daniel de Carvalho</li> </ul>	<ul style="list-style-type: none"> <li>Revista Brasileira de Economia (RBE)</li> <li>Revista do CNE</li> <li>Digesto Econômico</li> <li>Carta Mensal</li> </ul>	Classical and neo-classical theories (liberalism)	Growth without imbalances, via market forces	In Brazil, there is no unemployment, only low productivity	Growth is unbalanced and inefficient, due to wrong economic policies
	<ul style="list-style-type: none"> <li>Comissão Mista Brasil-Estados Unidos</li> <li>Banco Nacional de Desenvolvimento Econômico (BNDE)</li> </ul>	<ul style="list-style-type: none"> <li>Roberto Campos</li> <li>Ary Torres</li> <li>Lucas Lopes</li> <li>Glycon de Fátima</li> </ul>	<ul style="list-style-type: none"> <li>Revista Brasileira de Economia (RBE)</li> <li>Digesto Econômico</li> <li>Carta Mensal</li> </ul>	"Post-Keynesian eclecticism"	Industrialization at a pace compatible with stable prices, supported by large foreign capital inflow and partial planning	Investment strategy based on the "bottlenecks/growth points" thesis	Tendency to disequilibrium, not remedied because of wrong economic policies
NATIONALIST-DEVELOPMENTALIST	<ul style="list-style-type: none"> <li>Confederação Nacional da Indústria (CNI)</li> <li>FIESP</li> </ul>	<ul style="list-style-type: none"> <li>(R. Simonsen)</li> <li>J.P.A. Magalhães,</li> <li>Nuno F. de Figueiredo</li> </ul>	<ul style="list-style-type: none"> <li>Estudos Econômicos</li> <li>Desenvolvimento e Conjuntura</li> </ul>	Post-Keynesian eclecticism. Prebisch	Industrialization with strong government support for national industrial capital	Credit expansion as an instrument of growth	Import substitution
	<ul style="list-style-type: none"> <li>Banco Nacional de Desenvolvimento Econômico (BNDE)</li> <li>Assessoria Econômica de Vargas</li> <li>Clube dos Economistas</li> <li>CEPAL</li> <li>ISEB</li> </ul>	<ul style="list-style-type: none"> <li>(R. Simonsen)</li> <li>Celso Furtado</li> <li>Rômulo de Almeida</li> <li>Américo B. Oliveira</li> <li>Evaldo C. Lima</li> </ul>	<ul style="list-style-type: none"> <li>Estudos Econômicos</li> <li>Econômica Brasileira</li> </ul>	Post-Keynesian eclecticism. Prebisch	Planned industrialization strongly supported by State investments	EBIA's ideas (Inward-directed development, structuralism, etc.)	Import-substitution. Existence of structural disequilibria, not minimized because of lack of planning, but renewable only in the long run.
SOCIALIST	<ul style="list-style-type: none"> <li>Partido Comunista Brasileiro (PCB)</li> <li>ISEB</li> </ul>	<ul style="list-style-type: none"> <li>Caio Prado Júnior</li> <li>Nelson W. Sodré</li> <li>A. Passos Guimarães</li> <li>Aristóteles Moura</li> </ul>	<ul style="list-style-type: none"> <li>Brasiliense</li> <li>Estudos Sociais</li> </ul>	Historic Materialism	Making capitalist development possible to prepare the ground for socialism: planned industrialization on strictly national basis, and land reform	Thesis of anti-feudal and anti-imperialistic stage	Import-substitution on process, hindered by "land monopoly" and "imperialism"
IGNACIO RANGEL's independent thought				Smith Keynes Historic Materialism	Planned industrialization, strongly supported by State investments	Thesis of the "basic duality"	Import substitution (nineteen fifties) and realization crises (early sixties)



VIEWS ON THE MAIN ACTUAL ISSUES OF BRAZILIAN ECONOMIC DEVELOPMENT

	Internal Financial support of investment	Foreign Capital	State Enterprises	Planning	Protectionism	External Deficit	Inflation	Wages, Profits and Income Distribution	Land Reform
NATIONALIST DEVELOPMENTALISM	NEO-LIBERAL	Organization of a financial system	In favor of incentives	Against, although tolerant of exercises in partial planning	In favor of large tariff reduction	Inflation as the basic cause	Full-employment as the basic cause. For price stabilization policies	Neoclassical marginal productivity argument	Against
		Taxation	In favor of incentives	In favor of partial planning	Favorable	Possible without inflation, but generally caused by it	Full-capacity as the basic cause. For price stabilization policies.	Income redistribution hinders growth	No views expressed
		Incentives to profit reinvestment	Not against, but in favor of controls	favorable	Emphatically favorable	Structuralist	Strongly favor credit expansion even if inflationary	Defense of profits (reinvestments argumentation)	For limited reform
		Taxation	Not against, as long as controlled and in sectors other than mining and public services	emphatically favorable of total planning and regional planning	favorable	Structuralist	Structuralist	Income concentration hinders growth	Favorable
SOCIALIST		Taxation	emphatically against (except loans)	emphatically favorable	favorable	Emphasis on Lack of State controls (especially on profit remittances)	Imprecise interpretations. Emphasis on defense of real wages.	In favor of income redistribution (internal market argument) via land reform and Trade Union efforts.	emphatically favorable
		organization of a financial system	Not against, as long as with controls and in sectors others than mining and public services, but against loans.	emphatically favorable (own type of partial planning via external trade)	Favorable	Deficit caused by lack of State controls. In favor of State monopoly in the external trade	Inflation caused by oligopolistic/oligopsonistic structure of food commerce. Hypothesis of existence of overall idle resources	Wage increases as a means of stimulating use of idle resources	according to the DUALITY THESIS

III. PART II. THE EVOLUTION OF DEVELOPMENTALIST  
ECONOMIC THOUGHT (1930-1964) AND THE MATURATION OF  
DEVELOPMENTALISM (1945-1955)

# 1. Introduction: Developmentalism's Ideological Cycle — The Origins of Developmentalism (1930/1945)

## 1.1. Methodology and Periodization: The Ideological Cycle of Developmentalism

In this part of the work we shall examine the evolution of the reflexion about Brazilian economy in the period 1945/1964, drawing on the same material used in Part I, i.e., books, specialized publications, and a selection of documents from that period. For this purpose we shall rely on the systematization effected in the preceding chapters, where we have dealt with the major currents participating in the economic debate during that decisive period of Brazilian industrialization. This conceptual background shall contribute to the analysis that follows while at the same time being enriched by it.

The previous systematization used as its basic criterion the identification of the developmentalist project pursued by those economists and intellectuals who expressed their views about Brazilian economic problems in the period under study. As a key instrument we have employed the concept of "developmentalism", which as per its definition in the General Introduction to the present work is viewed as a project for industrialization with state planning and support. Those elements are maintained in the present part as organizing instruments for an account of the evolution of economic thought. In our pursuit of the movement of economic ideas in Brazil our major point of reference are the transformations observed in the discussions about Brazilian industrialization according to the different economic and political conjunctures of the period under analysis.

The periodization we have adopted in studying the evolution of economic ideas is an outcome of that methodology: it is based on the criterion of observing the major movements of establishing and intellectually developing the project of heavy industrialization as a means to overcome underdevelopment. Upon reviewing economic literature we have been able to distinguish three major

phases in the process of elaboration of that project, viz.:

- a) 1930/1944: The origins of developmentalism;
- b) 1945/1955: The maturation of developmentalism;
- c) 1956/1964: Climax and crisis of developmentalism (respectively during 1956/1960 and 1961/1964).

Our attention will focus chiefly on developmentalism's maturational phase. We shall devote three extensive chapters to that subject covering its three markedly distinct subperiods. By way of introduction we shall make a brief analysis of its "originary" phase, and by way of conclusion we shall deal with the "climax and crisis" period.

Relying as we do on a conceptual map of economic thought as condensed in the summary tables supplied at the end of Part I, all that is now needed to carry out our intended analysis is the identification of the basic characteristics of the historical process which provided food for economic thought. Throughout our exposition and drawing on the available historiography we shall briefly describe those characteristics.

## 1.2. The Origins of Developmentalism (1930/1945)

The considerable extension of this work has prevented us from studying economic thought during that period we might refer to as the "origin" of the developmentalist project, i.e., the fifteen years that followed the simultaneous collapse of coffee-based economy and the hegemonic power of regional oligarchies. There is every indication that the period 1930/1945 — and especially the years of the "Estado Novo" — brought a qualitative leap to the pre-existing industrialist ideology, contributing some basic elements for the definition of an industrialization strategy. The present section, which has an introductory character, aims to gather some indications confirming this characterization so as to compensate, even if only partially, for the deficiency pointed to above.

i. An outline of the developmentalist project

Among research studies on the history of Brazilian industrialization quite a few of them show the existence of industry-oriented thinking since the nineteenth century.<sup>1</sup> The reading of such works allows us to distinguish three elements in industrialist manifestations prior to 1930, all of which also feature within the transitional ideological framework of the 1930s and 1940s:

- 1) An attack against free-trade associated with the advocacy of protectionism, often voiced in a nationalist and anti-imperialistic tone, as in a text by Vieira Souto where he refers to liberalism as "self-interested English propaganda", or in the following passage quoted from a text by Serzedelo Correia:

"One must needs confess that it was the policy of neglecting our own industry and granting protection to anything that was foreign and imported that delayed our material progress; drove away from our soil the immigration of intelligent and well-prepared populations, as well as of skilled and able laborers; hindered our industrial development; and, within agricultural industry itself, doomed us to live in a regime of routine and backwardness.

Were it not for the laissez faire and free-trade policies that the imperial regime has always cherished in the name of consumers' interests (...) our strength and advance would be quite another thing".<sup>2</sup>

- 2) An attack against liberalism, associated to a demand for governmental intervention to grant the industry general support, including not only customs protection but also measures like credit

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(1) Carone, E., O pensamento industrial no Brasil (1880-1945), São Paulo, Diffel, 1977; Dean, W., A industrialização de São Paulo, São Paulo, Diffel; Luz, Nícia V., A luta pela industrialização no Brasil, 1800-1930, São Paulo, Diffel, 1961; Leme, M.S., A ideologia dos industriais brasileiros, 1919-1945, Petrópolis, Ed.Vozes, 1978; Lima, H.F., História do pensamento econômico no Brasil, São Paulo, Cia. Editora Nacional, 1976.

(2) Quoted in Carone, E., O pensamento..., op.cit., p. 46.

support and fiscal and tariff exemptions. A case in point is the following argumentation quoted from a text by Amaro Cavalcanti regarding other countries' economic policies:

"... by granting subventions, subsidies to interest rates, advance payments, credit reinforcement, customs protection and exemption from the payment of duties or taxes on behalf of certain enterprises like railway companies, maritime and fluvial navigation firms, etc., or by setting up central factories and other industries, what are several governments doing other than providing direct assistance to their countries' economic order?"<sup>3</sup>

- 3) An association between industry and any country's "prosperity" or "progress", as observed, for instance, in the two foregoing quotations.

This ideology of the early beginnings of Brazilian industrialization was marginal to national life, just as was industry itself. The decade of 1930 and the years of World War II were the starting point for some substantial changes in that picture both in regard to the diffusion of that ideology and to its own essence.

The accepted interpretation about the meaning of the Revolution of 1930 is that it blew up the political hegemony of regional oligarchies and made room for the penetration of new agents into the restricted universe of the country's ruling elites. As far as we know, there is no interpretation in the sense that that was an industrialist revolution. One might at best say with Ianni that the Revolution of 1930 "created conditions for the development of a bourgeois state, such as a system encompassing political and economic institutions, as well as social and cultural standards and values of a more properly bourgeois type".<sup>4</sup> Apart from that there even prevails the view

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(3) Quoted in Carone, E., O pensamento..., op.cit., p. 34.

(4) Ianni, O., Estado e planejamento no Brasil (1930-1970), Rio de Janeiro, Civilização Brasileira, 1971.

that industrialists' effective participation in the national events of that period was inexpressive. According to Warren Dean, Vargas was actually hostile toward industrial interests up to 1937.<sup>5</sup> And according to economy historians like Pellaez, Villela and Suzigan, the main axis of economic policies in the first of Vargas's two presidential terms had a markedly orthodox orientation.<sup>6</sup> Incidentally, we may note that even those studies that seek to stress the heterodox elements in that period's monetary, financial and exchange rate policies do not detect any concern with industrialization in the line of action then pursued.<sup>7</sup>

However, the argumentation provided by authors who emphasize the conservative aspects in that period's history does not actually contradict the one offered by researchers who seek its progressive elements. A dialectic understanding of the reality of that transitional phase would obviously require us to view the social whole as a set of equally significant traditional and innovative elements. After all, this has always characterized the complexity of any society undergoing fast transformations. We should note that a fair effort at synthesis might even harmonize the idea of an orthodox orientation in the main axis of that period's economic policies with some apparently opposed interpretations and meanings, such as, for instance, the idea that during that period "state action was decisive both in the actual economic movements and in its attempt to define the process and take the initiative of installing

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(5) Dean, W., A industrialização de..., op.cit.

(6) Pellaez, C.M., "As conseqüências econômicas da ortodoxia monetária, cambial e fiscal no Brasil entre 1889 e 1945", Revista Brasileira de Economia, FGV, Rio de Janeiro, July-Sept. 1971; Villela, A. and Suzigan, W., Política do governo e crescimento da economia brasileira, 1889/1945, IPEA/INPES, Rio de Janeiro, 1973.

(7) It is worthwhile remembering that Celso Furtado's classical heterodox interpretation uses the term "unconscious" in referring to what he called the "anti-cyclic policy" of the early 1930s. Moreover, Furtado establishes a relation between the policy of defending the coffee-growing sector and industrialization only from the perspective of the former's unforeseen effects on industrial expansion. See Furtado, C., Formação econômica do Brasil, São Paulo, Cia. Editora Nacional, pp. 187-194.



heavy industries in the country".<sup>8</sup> It would be most surprising, in fact, that the period's economic policies at large contained no ambiguities. The problem of presenting either its conservative or innovative elements lies in knowing how to gauge the weight and reach of each and every historical factor in it so as not to exaggerate their significance.

Let us therefore not exaggerate the meaning of the term "origins" of developmentalist ideology. In the first place, developmentalism as such — i.e., the ideology of overcoming national underdevelopment on the basis of a strategy of accumulating capital in the industry — was to become hegemonic only in the second half of the 1950s. In the period 1930-1945, what did occur was chiefly an initial and limited realization of the problems of industrialization by the new technical, civil and military elite then being installed in the orientation and control institutions implemented by the centralizing post-1930 government. The nationwide questions those technical experts were forcibly bound to face led them to ponder over the economy's long-term problems, and therefore to consider the historical solution of industrialization. In fact, from the point of view of the emergence and diffusion of industrialist ideology, this phenomenon is likely to have been far more important than the realization of those problems within the industrial class itself.

Second and most important, the period is said to hold the "origins" of developmentalism in that it is that point of Brazilian history when there was a more or less simultaneous emergence of four ideological elements that are essential to the developmentalist project and that superimpose themselves to and transcend the limits of the previous industrialist set of ideas:

1. A realization that it was both necessary and feasible to install an integrated industrial sector in the country, capable of inter-

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(8) Draibe, S., Rumos e metamorfose, um estudo sobre a constituição do Estado e as alternativas da industrialização no Brasil (1930-1960), Ph.D. thesis submitted to DCS/FFCCH/UNICAMP, mimeo, 1980.

nally producing the inputs and capital goods required for the manufacture of final products. The following passage, quoted from a speech delivered by President Vargas in Volta Redonda in 1943, is an expressive instance of manifestation of this new conception:

"The basic problem of our economy will soon be under a new sign. As a semi-colonial and agrarian country importing manufactured products and exporting raw materials, [Brazil] will be able to afford the responsibilities of an autonomic industrial life, providing for its own urgent defense and equipment needs. The solution can no longer be postponed. Even the most obstinate agricultural conservatives understand that one cannot depend upon imports of machinery and tools..."<sup>9</sup>

2. A realization of the need to establish mechanisms for centralizing financial resources that might make the intended industrial accumulation possible. Discussions concerning the feasibility of making large investments in heavy industry, as well as in steel-works or oil refineries were basic instances in that process. Also, there were frequent claims and proposals on the part of industrialists for the creation of banks devoted to financing fixed capital expansion within the industry. Equally discussed at agencies like the Federal Foreign Trade Council and the Technical Council for Economics and Finance was the possibility of creating new taxes to build the capital to be used by those banks, as well as the possibility of investing funds from social welfare agencies in new industrial undertakings.
3. Parallel to the development of the idea that the state is the guardian of the nation's collective interests and the promoter of national unification — a conception that accompanied the post-1930 power centralization process — the idea of governmental interven-

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(9) Quoted in Ianni, O., Estado e planejamento..., op.cit., p. 63.

tion to support private initiative ceased to be an isolated manifestation by some industrialists and gained greater legitimacy among the country's entrepreneurial and technical elites. At the same time, the idea of planning began to impose itself as an imperative within the picture of disarray created by the international crisis and the weakness in both the country's economic structure and the national entrepreneurial class itself. As we will see elsewhere in this work, the acknowledgement of that weakness was so widespread that even the overthrow of the regime orchestrated by Vargas was insufficient to undo the belief that it was incumbent upon the state to guide the economy in order to grant it more rationality and assure its expansion. The manifestations favoring planning to support private initiative were not included merely in the authoritarian Constitution of 1937, but may also be found in the liberal Constitutions of 1934 and 1946.

4. Economic nationalism, formerly hardly significant within the country, attained new dimensions. First, there was an aggravation of the classical anti-imperialistic feeling of defending customs barriers and exercising control over the nation's natural resources. The reasons contributing to this are well known: the international crisis and depression with their effects on the country's economy; the ideology of integralism (the Brazilian fascist current) and of the National Liberating Alliance's socialism; the ideology of strengthening the central power, according to which the state should be the guardian and promoter of "national interests", etc. Secondly and for identical reasons, a new economic nationalism began to gain expression: the view that industrialization is feasible only through state support of a kind that should go beyond planning and control over natural resources, i.e., that should also include di-

rect investments in transportation, mining, energy, and heavy industry. Luciano Martins's fascinating study about the process of creating large state steelworks is a case in point.<sup>10</sup> Martins identifies in the 1930s an alliance between military officers and "technical staffs" giving rise to "the basis of a simultaneously state-controlled and nationalist policy". In a reference to the final report prepared by the Federal Foreign Trade Council's subcommittee that, in 1937, had studied the question of steelmills and concluded that state control over the industry was "the most efficient means of economic defense", Martins thus summarized the subcommittee's report:

"The subcommittee has set the basic principles that must guide the solution of that problem. These are, in short, as follows: the country's economic independence, without which its political independence is nothing but mere fiction, can be attained only through nationally-controlled industrialization; without major steelworks there can be no industrialization; state control over iron and manganese is indispensable for the creation of steel mills".<sup>11</sup>

The foregoing view accurately depicts the essence of the stand taken by one of the three developmentalist-oriented "currents of thought" which discussed Brazilian economy in the period 1945-1964, i.e., governmental experts' "nationalist developmentalism". It is interesting to note that the ideological configuration regarding the issue of steelworks already allows us to pinpoint the origins of the two other currents of developmentalist thought referred to in this work. The attempts to bring U.S. Steel into Brazil may have been a frustrated advance made by the later successful con-

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(10) Martins, L., Pouvoir et développement économique, Paris, Anthropos, 1976, chapter V.

(11) Idem, p. 210.

ception of what became conventionally known as "associated capitalism", such as advocated by the current herein called "non-nationalist developmentalists". Also, in national entrepreneurs' attempts to take part in the steelworks project we find a major differentiating characteristic of the developmentalism of "private areas", i.e., that of a merely occasional nationalism formulated in such a way that the interests of the moment might be handled without upsetting the relatively free inflow of foreign capital. Such is the case, for example, of the stand taken by Guilherme Guinle, who — interested as he was in sharing the new steel undertaking with foreign capital under state co-ordination — asserted at the debates of the Technical Council for Economics and Finance that the steel processing issue would jeopardize the interests "of the nation's development and independence".<sup>12</sup>

ii. Historical support for the realization of the importance of developmentalism

Two major historical factors gave support to the birth of the developmentalist project. First of all, there was a vigorous industrial boom. The combination of the crisis in the exports sector with the subversion of relative prices resulting from exchange rate devaluations, as well as the existence of idle capacity accumulated in the 1920s, answered for a "displacement of the dynamic center" of the economy, which began to operate in response to the domestic market.<sup>13</sup> The data referring to industrial expansion in support of this central thesis of Celso Furtado's are unequivocal.

Between 1932 and 1939 industrial production grew at an average rate of 10% p.a. against less than 2% for agricultural production. A comparison

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(12) Martins, L., Pouvoir et..., op.cit., p. 207.

(13) Furtado, C., Formação econômica..., op.cit., chapter XXXII.

between census data for 1920 and 1940 gives us a fair measure of the transformations occurred in the Brazilian economic structure: the value of industrial production went up from one-fifth of the total combined production value for both agriculture and industry to over two-fifths of that value.<sup>14</sup> As the industrial production growth rate in the 1920s was low (2.9% p.a.), falling below the rate for agriculture (4.1% p.a.),<sup>15</sup> there can be no doubt that the major changes came about in the decade of 1930. The years of World War II confirmed the process: the average annual rate for industrial expansion reached 6.7%, regardless of all the difficulties in the supply of raw materials and equipment that were typical of that period. If we add to these data some information concerning the differentiation within industrial production itself — such as that the participation of capital and intermediary goods in the overall industrial output went up from 18.4% in 1919 (respectively 1.9% and 16.5%) to 27.8% in 1939 (respectively 4.9% and 22.9%); and that there was a substantial reduction of import participation in the total supply of those goods<sup>16</sup> — then the period may also be characterized as that of a qualitative leap in the history of Brazilian industrial evolution. The structural solution to the crisis in the primary goods export model was therefore running full blast, whether or not this was realized by the country's political, technical and entrepreneurial elites, but contributing to their realization of it.

Secondly and parallel to these transformations in the productive basis, there occurred a second process of major importance for the establishment of a developmentalist orientation in the country. As a reaction to the crisis in the external sector and the outbreak of the world conflict, as well

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(14) Cf. Baer, W. and Villela, A.V., "Crescimento industrial e industrialização: Revisões nos estágios de desenvolvimento econômico do Brasil", Dados, 9, Rio de Janeiro, 1972, p. 123.

(15) Idem.

(16) Cf. Fishlow, A., "Origins and consequences of import substitution in Brazil", in E.D. Março (ed.), Essays in honor of Raul Prebisch, New York, Academic Press, 1972, tables III and IV.

as substantiating the violent power centralization that followed the collapse of the oligarchic state, there emerged with astonishing swiftness an entire network of institutions regulating and controlling the country's economic activities. The new agencies gathered government officials, entrepreneurs, military officers, and civil servants within an eminently corporative format. The common denominator among those agencies' specific assignments was, of course, the question of defending national economy and building it in such a way as to minimize its vulnerability to international crises. Excellent objective circumstances thus combined naturally to promote a gradual realization of the feasibility of a self-supported process of generating wealth on the basis of industrialization.

Dating back to this period is the creation of six planning agencies with nationwide assignments within all of which the paramount issue of finding alternative ways to development appeared as a natural consequence of the problems dealt with by each of them: the Public Sector's Administrative Office - DASP (1938), the Federal Foreign Trade Council - CFCE (1934), the Technical Council for Economics and Finance - CTEF (1937), the Co-ordination for Economic Mobilization - CME (1942), the National Industrial and Commercial Policy Council (1944), and the Economic Planning Committee - CPE (1944).

DASP was created in 1938 to rationalize public service's administrative structure. It concentrated considerable power during the "Estado Novo", to a point where it even assisted the President on legislative matters at the federal level and had the authority to veto interventors' acts and decrees at the state level (which was done through its state agencies). It introduced a merit system for admission into the public service via entrance examinations, thus threatening the client-favoring policy that had been an instrument of political power for traditional ruling elites. As a natural result of the comprehensive character of DASP's assignments, which included the elaboration of the federal budget (which the agency never did carry out, but for which

task it was then being prepared) and the exercise of elaborating plans (it was responsible for the preparation of the Special Plan of 1939 and the Works and Equipment Plan of 1943), there sprang up among its technical staff a wish that it might be transformed into a central planning agency. However, its performance during the "Estado Novo" had so negatively affected well established interests that the agency was virtually emptied after Vargas's fall.<sup>17</sup> From the DASP came the basis of the technical staff that was to form the Getúlio Vargas Foundation, including Simões Lopes, head of the DASP and President of FGV, the important neo-liberal economist Octavio Gouveia de Bulhões, and developmentalists Thomaz Pompeu Accioly Borges and Américo Barbosa de Oliveira, the latter being the editor of Conjuntura Econômica up to 1952 and the founder, along with Celso Furtado, of the Economists' Club in 1954.

The Federal Foreign Trade Council was created in 1934 to plan the Brazilian foreign trade policy. By 1936, its assignments were extended to include studies and proposals about measures that should stimulate all sectors of national economy, in view of which it took over the tasks that ought to have been performed by the National Economic Council (created by the Constituent Assembly of 1937 but actually non-existent). A long list of governmental decisions concerning not only foreign trade but also agricultural production and specially industrial production followed this agency's recommendations.<sup>18</sup> The CFCE had a decisive influence, for instance, in the "state solution" given to the steelworks issue early in the "Estado Novo" period, which resulted in the creation of Companhia Siderúrgica Nacional in 1942. It also played an important role in the debates leading to the creation of the National Petroleum Council (CNP) in 1940 and the National Alkali Company in 1944. Among the out-

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(17) Draibe, S., Rumos e metamorfose..., op.cit., chapter 2 of Part I and chapter 2 of Part II.

(18) See Monteiro, J.V. and Cunha, L.R.A., "Alguns aspectos do planejamento econômico no Brasil (1934-1963)", Pesquisa e Planejamento Econômico, vol. 4, Feb. 1974, no. 1, Rio de Janeiro, IPEA, pp. 5-7.



standing developmentalist personalities actively working in that agency were Ambassador Barbosa Carneiro, one of the great orchestrators of CNP and the state-controlled solution for steel milling; General Horta Barbosa, the first president of CNP and the most outstanding character in the National Oil Campaign between 1948 and 1953; and technical expert Jesus Soares Pereira, head of Vargas's Economic Advisory Board in 1953 and 1954 and chief author of the original projects for both Petrobrás and Eletrobrás.

The Co-ordination for Economic Mobilization (CME) was created in 1943 to plan economic activities during the wartime in substitution to the National Economics Defense Commission, which had been instituted in 1939 to control and promote foreign trade. CME's extremely varied assignments included the guidance of economic activities aiming to make it possible to produce "the more necessary and urgent materials and products"; the control over imports and exports of raw materials, semi-manufactured goods and manufactured goods through Bank of Brazil's Export and Import Department (CACEX), so as to comply "with the conveniences and needs of the armed forces, public services, and the population at large"; the co-ordination of transportation both within the national territory and abroad; planning, administration and fiscalization of fuel and energy rationing, etc. The agency was divided into twelve Sectorial (or functional) Co-ordinations, viz.: Fuels and Energy; Land Transportation; Naval Transportation; Mineral Production; Agricultural Production; Foreign Trade; Industrial Production; Prices; Supplies; Domestic Trade; Civil Construction; and the Special Agencies Co-ordination. Among these, Rômulo de Almeida emphasizes in his now classical description of 1950 about the "Brazilian Experience of Economic Planning, Guidance and Control" the Industrial Production Sectorial Co-ordination — an agency which, in that author's view, carried out the "work of rationalizing and controlling heavy industry and brought some major permanent benefits to productivity". He claimed it to have outlined "a wider scheme of industrial planning, which consisted of resource

surveys, studies about the obstacles to a larger general productivity and to the progress of industrial expansion, with maximum co-operation from private capital and administration". Still according to Almeida, "no other agency in Brazil has had such reliable technical resources to carry out a sectorial planning of that order".<sup>19</sup> However, the agency's head offices were in São Paulo and its technical staff came from the Politechnical School and the Technological Research Institute. It received ample support from João Alberto, a former state interventor and Co-ordinator for Economic Mobilization, as well as the benefit of a dynamic administration under Ary Torres, who had played an outstanding role in the negotiations pertaining to the creation of CSN and was to become a major developmentalist personality in the early 1950s, following the lines of "associated developmentalism"; Torres had also been the head of the Joint Brazil-USA Commission's national section, as well as the first president of BNDE.

The Technical Council for Economics and Finance was created in 1937 at the Finance Ministry with the basic assignment of preparing studies on and proposing steps about national financial matters encompassing monetary, financial and exchange rate issues, as well as governmental debts. From its very beginning it took an important part in the debate about steel mills, taking a clearly internationalizing stand in that respect, in contrast with the nationalist stand taken by the Federal Foreign Trade Council. In later stages it specialized on two subjects, viz., disciplining foreign loans and providing technical assistance in the preparation of state and municipal budgets and tax systems. The agency's Executive Secretary was entrepreneur Valentim Bouças, who was the local representative of a large foreign manufacturer of office equipment, as well as owner of the journal Observador Econômi-

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(19) Almeida, R., "A experiência brasileira de planejamento, orientação e controle da economia", Estudos Econômicos, Departamento Econômico da Confederação Nacional da Indústria, vol. 2, June 1950, pp. 76-77.

co e Financeiro and a personal friend of Getúlio Vargas's. Incidentally, the guidance imprinted by Bouças upon that agency was entirely in keeping with the basic ideological tendency of the Finance Ministry's administration, then headed by Minister Souza Costa.

The ministry that proved to be most receptive to a definition of an industrialization project was that of Labor, Industry and Commerce, under the headship of Minister Marcondes Filho. This was the sphere of power approached by the leading industrialist Roberto Simonsen in late 1943, with the support of other progressive personalities like lawyer San Thiago Dantas, in order to convey his proposal for economic development in the post-war period. The channel then created for that purpose was the National Industrial and Commercial Policy Council, whose job was to study industrial and commercial policies for that new stage. The Council was the stage of an important debate about economic planning and democracy, thus disclosing the progressive elite's concern about dissociating the planning proposal from the image of a dictatorship. The debate about planning marked the professional debut of Rômulo de Almeida's, who in subsequent years — and particularly after Simonsen's death — was to become the major developmentalist intellectual leader in the country up to the mid-fifties, when that leadership was taken over by Celso Furtado.

CNPIC approved of and forwarded to Vargas a report elaborated by Simonsen, conveying what was up to that time the most clearly articulated proposal for state-supported heavy industrialization. By that time Vargas had already created the Economic Planning Committee (subordinated to the National Security Council), which was requested to comment on CNPIC's report. It fell upon Eugênio Gudin, the intellectual leader of economic neo-liberalism in the country, to issue a pronouncement on Simonsen's report, which was challenged in its basic tenets. Along with a reply by Simonsen and a new rejoinder by Gudin, that document makes up one of the historical pieces of great interest to understand the level of awareness of Brazilian developmental problems at-

tained in those days.<sup>20</sup>

The Economic Planning Committee was discontinued after Vargas's fall. It had been created in 1944 under the pretense of carrying out studies of general and military interest, and it did do some research work, such as the study that originated its Railway Plan. However, its short-lived duration, as well as the non-existence of a permanent staff and co-ordination with other planning agencies — which were probably an effect of its members' lack of concern about or even disagreement with its purported objective of planning — make this agency worth mentioning only for its ideologically conservative participation in that historical debate.

Two other general scope agencies created at the time besides the six aforementioned ones were suitable centers for the debate about development strategy issues during that period — the Agricultural and Industrial Credit Department (CREAI), created in 1937, and the Export and Import Division (CEXIM), created in 1941, both being part of Bank of Brazil. CREAI was the first official credit agency set up to enhance industrial development. Its creation elicited widespread manifestations of approval from industrial class leaders. CEXIM had been created to provide financial assistance to both importers and exporters, but a few months later it was assigned the task of approving and granting "necessity certificates" to requests for imports of certain American products and equipment whose exports by the USA obeyed a priority criterion of military or economic defense of the allied countries to which they were shipped. The experience accumulated during the wartime was partly responsible for the permit concession schemes adopted between 1947 and 1952 under CEXIM's control. This opinion is expressed in the major study about Brazilian economy made in the 1940s, which points out that in both periods the goal was to "allocate resources in foreign credits according to an order

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(20) The documents are collected in Doellinger, C. (ed.), A controvérsia do planejamento na economia brasileira, Rio de Janeiro, IPEA/INPES, 1977. (See in this respect chapter 2.2 of Part II of this thesis).

of priorities that benefitted fuels and raw materials of widespread industrial use".<sup>21</sup>

The list of planning agencies in sectors that were essential to industrialization and state undertakings during that period is not any smaller. Among the most important organs we might include the National Water and Power Council (1939), the National Gasogene Committee (1939), the National Mining and Steelworks Council (1940), the National Petroleum Council (1940), and the Electric Material Industries Committee (1944).<sup>22</sup>

These numerous general and sectorial planning agencies could hardly have helped becoming centers of collective reflexion about national developmental problems in that transitional phase into industrial capitalism. They assembled an emergent elite of technical experts and military officers seeking insertion into the universe of Brazilian elites. Those people took advantage of the historical possibility (opened by the Revolution of 1930, which put a high premium on technical knowledge and military security) of participating in the restricted sphere of decision-making about national issues.

As a final observation in this introductory section, an important word of warning is in order. If it may be admitted, on the one hand, that a pro-industrialization ideology began to develop among those agencies' top administrative and technical staffs, it may not be asserted, on the other hand, that an elaborate and perfectly well-defined industrialization project was generated in that period. There was lack of both co-ordination among the various agencies and financial resources to permit a minimum continuity in the work performed by each of them, and above all there was lack of a general economic policy orientation to provide a comprehensive and decisive ideological support to their pioneer economic planning activities. Furthermore, with

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(21) Malan, P. et al., Política econômica externa e industrialização no Brasil (1939/1952), Rio de Janeiro, IPEA/INPES, Col. Relatórios de Pesquisa no. 36, 1977, p. 359.

(22) Also dating from this period is the creation of five large state-owned companies: Companhia Siderúrgica Nacional (1942), Companhia Vale do Rio

the partial exception of Roberto Simonsen's 1944 text about Brazilian economic planning, which we have analyzed elsewhere in this work, industrial entrepreneurs were not any abler to produce an elaborate industrialization project. The leaders of the São Paulo Federation of Industries (FIESP) and the National Confederation of Industries (CNI) expressed a growing confidence in the historical possibilities of industrialization, but had no clearcut ideas about the actual way to render this developmental route feasible. If it is a fact that the three congresses at which they gathered in the final wartime years were occasions upon which they claimed for measures such as planning, support for the energy and transportation infra-structure, creation of financing agencies and so forth, it is also a fact that such basic revindications were intermingled with several others of relatively minor importance and without the necessary hierarchization.<sup>23</sup>

It must be noted that these limitations in the ideological firmness of the then emerging industrial entrepreneurial class are acknowledged even in the major work challenging the idea (which prevailed among researchers of that period) that the industrial bourgeoisie had an inexpressive political participation at that time. At a given point in her argumentation, its author states: "the elaboration of an explicitly industrialist ideology did not present a fully defined outline. Simonsen himself was unable to make an accurate specification of the set of mechanisms and recommendations required to implement a consistent industrial policy, i.e., the content of such a policy remained insufficiently formulated".<sup>24</sup> And she goes on with a proviso that only

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Doce (1942), Fábrica Nacional de Motores (1943), Companhia Aços Especiais Itabira - Acesita (1944), and Companhia Hidrelétrica do São Francisco (1945).

(23) See "I Congresso Brasileiro de Economia - Anais: 25 de Novembro a 18 de Dezembro de 1943", Rio de Janeiro, 1943 and 1944; "Congresso Brasileiro da Indústria - Anais: 8 de Dezembro a 18 de Dezembro de 1944", São Paulo, Revista dos Tribunais; Conferência das Classes Produtoras, Carta Econômica de Teresópolis, Teresópolis, 1945.

(24) Diniz, E., Empresário, Estado e capitalismo no Brasil: 1930-1945, Rio de Janeiro, Paz e Terra, 1978, p. 98.

serves to confirm that the period may be characterized as that of the origins of the developmentalist project: "Nevertheless, in terms of its more general outlines, some of its elements were not only defined, but also included in the industrial sector's platform of revindications presented to governmental authorities, especially as of 1940".<sup>25</sup>

## 2. Economic Thought and the Maturation of Developmentalism

### 2.1. Economic Thought in the Post-War Transition: Liberalism and the Developmentalist Resistance - 1945/1947

#### i. The historical context: political conjuncture and economic conjuncture

By the end of the "Estado Novo", as we know, Brazilian society was engaged in a widespread and unique campaign. Well aware of it were the politicians, entrepreneurs, intellectuals and laborers who were attracted into political participation in the wake of the enthusiasm arising from the possibility of restructuring the Brazilian political scene. This situation, whose initial sign has been identified in the "Manifesto dos Mineiros" (a manifesto by the people of the state of Minas Gerais), dated late 1943, was effectively intensified during the year 1945, at the end of which, under the seal of the new parties then being created, the first direct presidential elections since 1930 were to be held.<sup>1</sup>

The year 1945 was marked by two major parallel movements: on the one hand, those who opposed the "Estado Novo" gathered chiefly around the National Democratic Union (UDN); on the other, there was the reply from the men in power, who, guided by Vargas's strategy for the survival of his political machinery, assembled at the Social Democratic Party (PSD), and on a smaller scale

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(25) Diniz, E., Empresário, Estado..., op.cit., p. 98.

(1) The "Manifesto dos Mineiros" and other major political documents of the period 1943-1945 are collected in Virgílio de Mello Franco's A campanha da UDN, Rio de Janeiro, Valverde, 1946.

at the Brazilian Labor Party (PTB). The Brazilian Communist Party (PCB), then emerging from illegality with great vigor, did not actually represent a fierce opposition against Vargas in the 1945 conjuncture. The PCB had joined in a campaign for redemocratization via a "Constituent Assembly with Vargas", which was headed by the PTB; the latter felt that presidential elections should be postponed until after the election of a constituent assembly and the elaboration of a new Constitution. Nevertheless, the PCB was enthusiastic about the democratic perspective then opening up and gave priority to the struggle toward democracy, which might at that time, in its members' opinion, include the figure of Vargas. As for PSD members, they had little interest in taking part in any such campaign. Having been linked to Vargas in the previous years, what suited them best at that point was to dissociate their image from dictatorship and total dependence upon Vargas, though preferably this should not imply a loss of the President's support to the new party.

The background for that twofold movement were the elections. Announced in February 1945, they concerned not only the Presidency of the Republic but also the Senate and the House of Representatives, both of which should form the basis of a constituent assembly. On Vargas's side, there was an attempt to make maximum use of the privileges granted by the authoritarian exercise of power so as to maneuver the transition into democracy as was most convenient. That was the rationale behind the frustrated attempt to anticipate state and municipal elections and hold them on the same date as the national election, in a maneuver widely denounced by the opposition as a means of electing Vargas's strongmen in the states — the interventors — for the office of Governors. This was at the root of Vargas's overthrow by the country's top military officers shortly afterwards, in October 1945. Not all attempts, however, were frustrated. Electoral results were widely favorable to PSD's candidate, Vargas's former War Minister Eurico Gaspar Dutra, and gave more than 60% of the seats at the Senate and House of Representatives to PSD and PTB candidates



— i.e., to "insiders", to use Skidmore's aptly coined term.<sup>2</sup>

The political scene for "insiders", of course, was to be altered in the new phase, since Vargas no longer occupied the commanding position. But there was a preservation of the links of political allegiance and the commitments among the different regional elites gathered together at the PSD. Vargas himself had little sympathy for PSD's candidate, Dutra, but was led to support him after his own fall lest he might disrupt the plan to preserve a minimum basis of power which he had helped scheme up a few months before being overthrown. Maria C. C. de Souza's telling analysis shows that the great instrument of that plan was decree-law no. 7856 of May 1945, elaborated by Justice Minister Agamenon Magalhães to regulate the drafting of constituents and candidates and to control the electoral process. Several provisions in "Agamenon's law" favored the political machinery already established at the national level, thus reducing the electoral possibilities of new parties and candidates. Among those provisions there stand out (a) the candidates' possibility of running simultaneously for the offices of President, Senator and House Representative in any given state or in more than one state; (b) the "surplus" mechanism in the elections for the House of Representatives and for state Legislative Assemblies, which assigned to the party — and not the candidate — with the largest vote those votes exceeding the electoral quota required for candidates from different parties to win the elections; (c) the ex-officio electoral enrollment, which allowed the registration of constituent blocks on the basis of lists prepared by governmental officials and agencies.<sup>3</sup>

Vargas's fall and the national December elections were the major political events of 1945. In 1946, the great event was the promulgation of the

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(2) See Skidmore, T., Brasil de Getúlio a Castelo, Rio de Janeiro, Paz e Terra, 1975.

(3) Cf. Souza, Maria do Carmo C. de, Estado e sistema partidário no Brasil, São Paulo, Alfa Omega, 1976.

new Constitution. The expression "controlled democratization", which is widely accepted among researchers of Brazilian political history, gives the exact connotation of the content of the new political structure consolidated in the Magna Carta of 1946; freedom of expression and popular representation in general were assured, except with regard to those aspects threatening private property and capital accumulation — i.e., except with regard to the system's essential relations between capital and labor. With respect to these, freedom was only cautiously assured: the organization of labor unions was guaranteed, but without any alteration in the corporatist framework inherited from the previous regime (the Consolidation of Labor Laws dates back to 1940), which barred the association of labor unions gathering different professional categories, prohibited the establishment of more than one union per geographic area as defined by law, assured the Labor Minister the right to either approve or invalidate any union decision, and demanded an "ideological certificate" from all elected union leaders — a demand that was superseded in 1951 and reinstated in 1964.<sup>4</sup> The right of strike was introduced and duly accompanied by a demand for its legal regulation (which was passed only in 1966), but it was restricted by a labor union legislation that stipulated strict practical limits for the duration of any strike. The agrarian reform was recommended, but only with the virtually prohibitive proviso that there be a "fair cash indemnification of landholders". The organization, registration and operation of political parties were assured to all, but the legal grounds for the Communist Party's abrogation (which came in the following year) were set in paragraph 13 of Article 141, which forbade the establishment of parties "whose program or action should go against the democratic regime".

These aspects clearly disclosed the conservative character of the new Congress, where there was a vast predominance of representatives of old regional oligarchies. Unlike their position in the First Republic, they were

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(4) Cf. Schmitter, P., Interest conflict and political change in Brazil, Stanford, Ill., Stanford University Press, 1968, pp. 123-133.

now under the constraint of having to make some compositions and concessions regarding national politics. In exchange for that, however, they preserved their freedom of action at the regional level, which had been reduced during Vargas's government. Assembling at the PSD were those conservative oligarchy representatives who had compromised with Vargas, while those who had opposed the "Estado Novo" gathered at UDN.

It is thus easy to identify in the new Congress the basic common trait uniting former sympathizers of the "Estado Novo", gathered together at the PSD (and forming a majority along with the PTB), and UDN oppositionists: together they set up a sound barrier blocking the Brazilian labor classes' freedom of movement. The prevailing conditions favored the promotion of that fundamental alliance. The multiplication of strikes all over the country in an attempt to rehabilitate real salaries, which had been drained by the high wartime inflation; the ascension of the Communist Party, which amassed ten percent of the national electorate and already had, by 1947, approximately two-hundred thousand members; and the first symptoms of the cold war, all amounted to a sufficient number of objective reasons to warrant a definition of the limits of the democracy the dominant classes were willing to implement.

The political events of 1947 brought an end to the triennium of Brazilian political and institutional reorganization. On the one hand, the radical opposition to Dutra's government — the Brazilian Communist Party — was declared illegal in March 1947, notwithstanding its tactics of non-confrontation or "National Union", which included even a neutralization of any attempts to go on strike;<sup>5</sup> less than a year later, the Party's representatives in Congress had their mandates recalled. On the other hand, the conservative opposition — UDN — began to outline what was to become the keynote of its performance in subsequent years, i.e., a "cordial opposition" to Dutra's govern-

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(5) Cf. Basbaum, L., História sincera da República, vol. III, São Paulo, Alfa Omega, 1973.

ment. At the international level, Brazil broke diplomatic relations with the USSR, thus defining its unconditional alignment with the USA.

For our purpose of drawing a simple profile of the political situation prevailing in 1945 and 1947 the foregoing considerations are perhaps already somewhat long. However, it would not be appropriate to avoid them, since that phase's political process had not only a decisive importance for the remainder of the period studied in this work, but also exercised a decisive influence of the very ulterior evolution of economic thought, which is our concern here: for a long time (up to the early 1960s) the economic debate centered around the problem of developing productive forces, while more directly social issues such as income and land distribution remained in the background. We will nevertheless try to make up for the aforementioned length by abbreviating our description of the economic conjuncture of the three years covered in the present section.

Brazilian economy in the closing wartime years was fully expanding.<sup>6</sup> In 1943 and 1944, the GDP's annual growth rates were around 8%, industrial expansion standing out with rates of 13.5 and 10.7%, respectively. Agricultural performance in 1943 was also good (attaining a 7% growth) but it did not continue throughout 1944, when its expansion rate reached only 2.4%. In any case, viewed as a whole, the economy was recovering from a weak performance in the period 1939-1942. Concerning price rises, what happened in 1943 and 1944 was a continuation of the inflationary process initiated in 1940/1941. Classical analyses of inflation rates — which reached approximately 19% in 1943 and 14% in 1944 — as well as of the rate of approximately 16% for 1945 tend to account for them in terms of the large superavits in the balance of payments, the huge deficits in the government's ordinary budget and in its wartime bud-

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(6) The data presented in the subsequent paragraphs were quoted from Malan, P. et al., Política econômica externa e industrialização no Brasil (1939/1952), Rio de Janeiro, IPEA, Research Report no. 36, 1977. This book is a major reference source on Brazilian economy in the decade of 1940.

get, and also in the marked bank credit expansion that actually occurred in the triennium.<sup>7</sup>

The year 1945 resembles the former ones where the inflationary process is concerned, but contrasts with them with respect to economic performance: agriculture went through a major crisis (showing a negative growth rate of 2.2%), industry attained only a modest expansion (5.4%), and the GDP raised only 3.2%. Recovery came in the following year, when the GDP growth rate was 11.6%. Our attention is drawn not only to the extraordinary industrial product expansion, which reached 18.7%, but also to the remarkable recovery observed in the agricultural sector, whose annual output raised by approximately 8%. The rise in prices still persisted, however, despite a significant bank credit retraction, going up to 15.3%. Among other factors, it was nurtured by a higher budgetary deficit than in wartime years (owing to raises in the wages paid to civil and military public servants, which had not been forecast in the original budget) and, on a smaller scale, by the results attained in the balance of payments, which, as in 1945, maintained a positive balance, though at a level below that of the period 1942-1944 (respectively US\$ 62 millions and US\$ 92 millions in 1945 and 1946, against an average US\$ 186 millions in the triennium 1942-1944).

In 1947, all these indices of economic behavior underwent marked alterations. In a year of relative recession, the raise in the GDP did not go beyond 2.4%, reflecting the reduced industrial expansion (3.3%) and the stagnation in the agricultural sector (0.7% growth). Inflation fell down to a level that was to be the lowest rate attained until then (5.6%), with the oc-

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(7) See Gudin, E., Ensaio sobre problemas econômicos da atualidade, Rio de Janeiro, Civilização Brasileira, 1945; Bulhões, O.G. and Kingston, Jr., "Política monetária para 1947", RBE, vol. 1, no. 1, Sept. 1947; and Joint Brazil-USA Commission, Relatório Geral, Rio de Janeiro, 1954. The latter document brings to the foreground, apart from the three causes "on the side of demand" (concerning the balance of payments, public deficits, and credit expansion), the cost component determined by international inflation, drawing attention to the rigidity of the taxation system as a cause of public deficits. For a comprehensive assessment of the inflationary

currence of the first federal government budgetary superavit in many years (contrasting, however, with a marked deficit in state government budgets, a fact that has already been attributed to the relative administrative decentralization after the overthrow of the "Estado Novo") and a significant credit contraction. Along with the credit crisis, the year 1947 was marked by a major exchange rate crisis. For the first time since the 1930s there was a deficit in the balance of payments in which there stood out a negative balance in the commerce of goods traded with areas of convertible currencies, thus exhausting the readily usable part of the reserves accumulated during the war-time.

For that reason, two sets of basic measures in the area of exchange rate policies — despite their opposite purposes — were enforced within an interval of shortly over one year. The first of them consisted of Interministerial Administrative Instruction of December 1945, which cancelled the requirement of anticipated import permits for most imports, a requirement that had been introduced in early 1945 with a view to reserving the foreign credits accumulated during the war for imports deemed indispensable. And it further consisted of Decree-law 9025 of February 1946, which liberated the exchange rate market. The same decree also regulated the right of repatriation of foreign capital invested in the country (maximum 20% p.a. of the registered capital in Brazil) and profit remittances (maximum 8% of the registered capital). The second set of measures was composed of the Interministerial Administrative Instruction of March 1947, which reinstated the system of anticipated import permits for all imports, as well as of a series of consecutive administrative directives establishing control over the import of some specific products, and finally of SUMOC's Instruction no. 2 of June 1947, which enforced a system of priorities in the distribution of foreign credits for im-

ports, thus rationalizing the former Administrative Instruction. The system of import permit concessions was operated by Bank of Brazil's CEXIM, which was also responsible for the export permit grants introduced in 1941 and maintained in the post-war period.

The exchange rate, in turn, was kept at the level of Cr\$18,00/dollar, as stipulated in 1939, until early 1953. Tariff policies were not substantially changed and virtually maintained the 1934 tariff structure, which was based upon fixed values stipulated per import category. Thus, the continuous increase in import ~~maturity terms~~ <sup>prices in cruzeiros</sup> resulted in a progressive fall in protection margins, which reached an average of 10.2% of the value of imports in 1947, against 35% in 1934, and continued to decline until the Reform effected in 1957, a year during which they went down to the level of 3.2%. Other important events in the area of economic policies were the contentionist measures affecting credit expansion, which became rather strict during Dutra's government, and the creation, in February 1945, of the Money and Credit Superintendence (SUMOC), which essentially centralized some typical Central Bank assignments that had so far been scattered throughout different governmental agencies.

In order not to leave aside the long-term perspective, which we always risk losing sight of no matter how brief a description is made of the economic conjuncture, it must be noted, in closing this introduction, that the period 1945-1947 did not alter the basic evolution characterizing Brazilian economic history since the early 1930s: the process of diversification of the productive apparatus was still progressing at full speed as urban industrial activities led the country's expansion by a wide margin. In 1947 and for the first time in the country's history, the industrial production value surpassed the agricultural one. Moreover, transformations continued to occur within the industrial sector itself, where the heavy industry segments showed higher expansion rates than the average for the sector. Significantly enough, 1945 was the year that celebrated the inauguration of an undertaking that, to this day, stands

as a symbol of Brazilian industrialization, i.e., the Volta Redonda steel mill.

Such structural transformations did not escape the attention of those who have analyzed that period. As we shall see later ahead, the relative orthodoxy of economic policies at the beginning of Dutra's government did not hinder a realization of the historical importance of industrial progress.

## ii. Economic thought

### a) General features

A historian eventually interested in recording an atmosphere of economic liberalism in the post-war transition period in Brazil shall not be wanting material for his or her research. In fact, both in anticipation of and following the liberal orientation of the economic policies then enforced, one may find innumerable expressions of applause in the economic literature of the time. In many cases these were part of truly liberal campaigns, as in the abrogation of the "Malayan law" in 1945 (see comments later ahead), in the extinction or marginalization of planning agencies, in the liberalization of imports, or in the assurance of liberality in the repatriation of capital and profits by foreign companies. There certainly was something in the order of a "liberal resurgence" in those days — a term we should not actually employ given that we have not studied economic thought in the preceding period. In this sense, we could merely risk a guess that, as compared to the "Estado Novo" period, specially in its early years, there was an intensification of the manifestations favoring greater economic liberalism.

The liberalizing atmosphere is, however, only half of the history of economic thought in the immediate post-war period. The other half lies in the way in which developmentalist ideology concerning Brazil's future, which had originated in the previous period, resisted that liberalizing climate and unfalteringly passed even the acid test of the ideological confusion between political liberalism and economic liberalism, which was enhanced by the cir-



cumstances then prevailing. The situation of uncertainty that often accompanies major changes helped nurture that confusion. In 1945, American historian J.F. Normano, who was a researcher of Brazilian reality, thus expressed his own doubts:

"Does industrialization correspond to the actual needs of the country on whose economic structure it is based and whose imperatives it must satisfy, or is it an artificial movement doomed to disappear along with the abnormal events which provoked it? This is a time of confusion and the struggle has begun between the contradictory elements that give it expression".<sup>8</sup>

Just as the triumph of the set of historical elements that supported industrialization was to be fully demonstrated only years later, so did the triumph of one of those elements — the ideological one — take some time to materialize. At the level of one of the society's basic ideological fronts, i.e., at the level of intellectual production, the situation still remained undefined in the post-war transitional conjuncture, there being a certain equilibrium between conflicting positions.

Those positions did not lack the means for public expression. The final Vargas's and early Dutra's governmental years put a high premium on economic reflexion and on the economic profession itself. Countless articles and lectures draw attention to an intense increase in the concern about economic matters in those days. At that time, one welcomed the creation of technical advisory staffs and study and research teams within several governmental and private agencies. One could often record a realization of the need to raise the technical standards of economic analyses both regarding their theoretical tenets and the elaboration and use of economic statistics.

For the sake of illustration we may refer to the creation of the Economics Institute at the Rio de Janeiro Commercial Association (1943), which

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(8) Normano, J.F., "O desenvolvimento industrial do Brasil", D.E., July 1945, p. 96 (free translation).

was responsible for the organization of the First Brazilian Congress of Economy (1943); the creation of an Economics Institute at the São Paulo Commercial Association (1944); the creation of both an Economic Council and an Economic Department at the National Confederation of Industries (1947); the introduction (on Gudin's and Bulhões's initiative) of a single mandatory curriculum for the teaching of economics in the country, which until then had been conducted without exception along with the teaching of business administration or accounting, two areas of study thenceforward separated into distinct courses (1945); the creation of the Getúlio Vargas Foundation (1944), which was soon to have as its major assignment the elaboration of National Accounts; and, as if to crown economists' activities, the submission of a project to the National Congress in 1947 to regulate the profession, approval being granted to it in the same year.

The area of specialized economic publications was also powerfully boosted in that period: Digesto Econômico, a monthly periodical sponsored by the São Paulo Commercial Association and the São Paulo Federation of Commerce, had its first issue published in late 1944. Other monthly magazines like the Observador Econômico e Financeiro, owned by Valentim Bouças (Secretary of the Finance Ministry's Technical Council for Economics and Finance both during the "Estado Novo" and in Dutra's government), and Revista Bancária Brasileira, which concerned itself with the banking sector, made room for leading articles in their issues; the same was true of other journals such as the markedly liberal-oriented O Economista and O Mês Econômico e Financeiro, first published in 1947, the back cover of which announced the "permanent co-operation" of developmentalists Jesus Soares Pereira, Américo Barbosa de Oliveira and Aristóteles Moura, the latter of whom was to become an outstanding member of the current of socialist economists. By 1947, the Getúlio Vargas Foundation already published the first issue of its successful journal Conjuntura Econômica, headed up to 1952 by FGV's developmentalist wing, whose most prominent

members were R. Lewinsohn, Américo Barbosa de Oliveira, and Thomaz Pompeu Accioly Borges. FGV also published the first issues of its important journal Revista Brasileira de Economia, which is more academically-oriented. RBE was headed by FGV's conservative wing, which gradually became hegemonic over that agency and Conjuntura Econômica as well, and whose leaders were Eugênio Gudin and Octávio Gouveia de Bulhões.

Those publications are in themselves a rich reference material for a description of economic thought at that time. However, such description would be incomplete should no reference be made to the various collective declarations of principles about Brazilian economy that were one of the keynotes in that unique conjuncture of democratization. Many and significantly concentrated in time were the meetings that generated such collective ideological manifestations: by late 1943, as we have already noted, there came the First Brazilian Congress of Economy, which was probably the first large meeting to hold systematic debates about Brazilian economy in the country's history; during 1944 the debates held at the National Industrial and Commercial Policy Council had their best-known outcome in the famous Simonsen-Gudin controversy and also brought forward a proposal for creating a National Planning Board. The proposal was formulated by Simonsen drawing on suggestions made by Rômulo de Almeida. By the end of 1944, Simonsen sought to strengthen the unity of industrial interests by organizing, in co-operation with Euvaldo Lodi, the First Brazilian Industry Congress, at which Labor, Industry and Commerce Minister Marcondes Filho announced the proposal for a Planning Board. In May 1945 national entrepreneurs gathered together at the First National Conference of the Entrepreneurial Classes, held in Teresópolis, RJ, which was heralded by the journal Digesto Econômico as being responsible for drawing up the "Economic Statutes for Brazil".<sup>9</sup> The year 1945 also witnessed the presentation

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(9) Digesto Econômico, April 1945, p. 13.

of formal programs by the political parties then being created, which as a rule included declarations of principles on national economy. In 1946 came the First Engineering and Industry Congress, at which some heated debates were recorded between nationalist and internationalizing conceptions concerning foreign capital participation in mining and energy. Still in 1946 there was the work carried out by the Constituent Assembly, which resulted among other things in a new section of the Constitution headed "Economic and Social Order".<sup>10</sup> For its execution that work already counted on national entrepreneurs' recommendations, which had been formalized both in the Teresópolis Economic Letter<sup>11</sup> and in the "Social Peace Letter", the latter of which had been published by commercial associations still in 1945, amidst the climate of multiplying strikes all over the country and ascension of the Brazilian Communist Party.<sup>12</sup>

The most hotly debated economic themes in those days were protectionism, state planning and intervention, inflation, and the balance of payments. However, there were some common denominators in all those topics: from the liberal point of view there was the question of pursuing a normalization of market economy in the post-war period, and from the developmentalist perspective there was the question of carrying on the industrialization process. The debate might thus be expected to center around the question of Brazil's economic future, and one might also expect to find an open ideological and analytical conflict around conceptions based on Brazil's "agricultural bent"

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- (10) An interesting progress report on the work of the Constituent Assembly's Subcommittee in charge of elaborating a preliminary text on the subject can be found in Observador Econômico e Financeiro, May 1946, pp. 16-22. The Subcommittee was composed of House Representatives Adroaldo Mesquita de Castro (President), Agamenon Magalhães, Hermes Lima, Baeta Novais, and Café Filho. The ironic and witty style of the unsigned progress report leads us to believe that it was written by Carlos Lacerda, a well-known Brazilian politician who was then a journalist newly hired by OEF.
- (11) Conferência das Classes Produtoras do Brasil, Carta Econômica de Teresópolis, Teresópolis, RJ, 1945.
- (12) "Carta da Paz Social", Observador Econômico e Financeiro, January 1946, pp. 15-16.

and on industrial development. As we will see, however, this was not exactly so, but it does not prevent us from describing that period's economic thinking by privileging this basic question. That is what we now set out to do.

b) An "agricultural bent"?

The major works about Brazilian history in the immediate post-war years rightfully record the occurrence of clearly liberally-inclined economic policies during Dutra's government. Generally speaking, there is an agreement that in those days there prevailed a conception about the country's "agricultural bent". Skidmore, for example, singles out Finance Minister Correia e Castro's annual report of May 1947 covering the year 1946, where the Minister advocated a liberalization of the exchange market and stated that "it is in the essence of Latin American economy — and Brazil is an integral part of this scene — that there should be a certain concentration of efforts in the export of raw materials for food products, as well as in the import of a wide variety of manufactured commodities and industrialized food products".<sup>13</sup>

That was, of course, a clear manifestation of adherence to the orthodoxy of the classical international division of labor. The emphasis given to this type of statement proves misleading, however, if one uses as a reference source the ideological picture reflected in the economic literature produced at the time. Not only does one fail to find anything like a preponderance of liberal views regarding the country's possible "economic bent" but also the form in which that view chose to express itself, or rather its argumentative "tactics" are an indication of the difficulty of providing ideological support to the thesis of an agricultural disposition in the Brazilian society of the mid-1940s.

Liberal tactics may be summed up as follows:

1. On the one hand, a wide campaign was launched against the exist-

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(13) Quoted by Skidmore in Brasil de Getúlio a Castelo, op.cit., p. 97.

ing industry, which was charged with being harmful to consumers' interests and to the expansion of "the more efficient" activities — agricultural ones. The analysis centered first of all around the evidence of the "excessive profits" accrued by the industrial sector, which had allegedly given rise to the generalized inefficiency that must now be eliminated through a reorientation of bank credits and a lowering of customs tariff barriers; it centered simultaneously around the evidence of a stagnation in agricultural production, toward which it claimed one must reconduct the productive resources attracted into industry by the governmental privileges granted to that sector, including the legislation that "protected" urban workers. Inflation was said to be an evidence of the non-existence of full employment in the economy, while agricultural stagnation was purportedly one of the proofs of labor shortage in rural areas.

2. On the other hand, the argumentation was restricted to the prevailing conjuncture, which was claimed to be one of full employment, and avoided or even rejected the principle that the economy's "long-term" disposition was an agricultural one.

In fact, neither the liberal economic analysis of the time nor the rhetoric of liberal governmental authorities were wanting in qualifications to validate industrialization, albeit postponing it to an unspecified future. Liberals in general tried to avoid the image of being opposed in principle to Brazilian economy's diversification and to industrialization. To illustrate this point nothing can be better than a reference to the reply given by liberal economists' leader Eugênio Gudin to the developmentalist leader of the day, Roberto Simonsen, when the latter "accused" him of opposing industrialization. According to Simonsen, Gudin had asserted that all the country needed was to raise its agricultural productivity, "instead of slighting the one single economic activity in which we demonstrate a capacity to produce advantageously, i.e., an export capacity".<sup>14</sup> Here is Gudin's reply:

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(14) Simonsen, R., "O planejamento da economia brasileira", in A controvérsia

"I do not make and have never made war against national industry. In a mountainous country with areas of land that are poor in humus and rich in erosion it would be nonsensical not to seek industrialization (...) The question is altogether different. What I have been struggling against is the abuse of the disastrous and purportedly 'scientific' protectionism of 'anticipated import permits', as well as the suppression of current initiatives and the astronomical profits [accrued by the industry]. This is a very different point, but for the Federations it is more convenient to generate confusion by calling me an opponent of industries".<sup>15</sup>

Even Daniel de Carvalho, Dutra's Agriculture Minister, who is likely to have been the most radically liberal economist of his day, attenuated the impact caused by the radicalism of his view that "prosperous farming" is an "indispensable prerequisite for industry's development" by dressing his proposition with the following rhetoric:

"Industrialization, according to prestigious authorities, would provide us with a solution to the bleak post-war prospects.

No one can but be proud of our manufacturing apparatus and the capacity disclosed by industrialists in the advancement of several branches of manufacturing activities. Who among Brazilians does not sincerely aspire to see the country economically industrialized? Who would recommend a stoppage in the pace of our industrial evolution?

However, there being under project, execution or terminal phase some plans designed to provide us with the first key or heavy industries, among which there stands out for both its importance and its extensive and profound influence on the country's life the Volta Redonda steel mill, it seems crucial for the Government to wait for the operation of such factories and watch their effects on our economy.

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do planejamento na economia brasileira, Rio de Janeiro, IPEA/INPES, PEB Series no. 3, pp. 201-202. Gudin's statement appears in his paper "Rumos da política brasileira", which includes his pronouncement about Simonsen's article "A planificação na economia brasileira", both works featuring in the book published by IPEA/INPES.

(15) Gudin, E., "Carta à Comissão de Planejamento", in A controvérsia do planejamento..., op.cit., p. 229.

On the other hand, pushing industries ahead and letting farming lag far behind may aggravate rather than settle the situation, as Brazilian economy, save for a few rare exceptions, relies only on the domestic market, protected as it is by customs bulwarks.

Therefore, industrialists must understand that prosperous farming from the country's north to its south, with a high standard of living assured to the rural population, is an indispensable prerequisite for the development of industry, which will find buyers for its products among that population.

The lessons drawn from both experience and political economy recommend prudence to the enthusiasts of immediate industrialization".<sup>16</sup>

This may have been a bit of spontaneous tactics, but it was hardly gratuitous. The liberals of the day, politically engaged as they were in Brazilian life, realized in the first place that criticisms against agricultural stagnation and excessive profits had a far greater power to sensitize the society, then penalized by an intermitent inflation, than the problem of national economy's long-term structuration. Second and more important, they knew that those topics, as well as the question of eliminating the "Estado Novo"'s controlling agencies, were the ones that counted to steer economic policies toward the desired liberal objectives, and that the debate about long-term measures was bound to be unproductive: the thesis of an agricultural bent would elicit unnecessary antipathies in a conjuncture where, as we shall see, there was already a realization that in principle the industrial sector is necessary for a nation's prosperity. It sufficed for liberals to prevent such awareness from making it possible to enforce a developmentalist strategy — which by that time, while far from mature within the society, was beginning to ripen in the minds of a few outstanding industrialists and government, civil and military economic experts who worked at the federal agencies liberalists were

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(16) Carvalho, D., Estudos de economia e finanças, Rio de Janeiro, Apis, 1946, pp. 343-344.



endeavouring with temporary success to either extinguish or empty.

To tip the balance in their favor liberals counted on the situation of agricultural supply shortages by the end of the war, as well as on higher industrial production costs, which at least in the early 1940s led price rises within Brazilian economy. In this respect, it is important to note that in that conjuncture the economists who expressed their concern over agricultural stagnation and the industrial sector's inefficiency and "excessive profits" were not necessarily liberals. A case in point is Valentim Bouças, who had top responsibility within the federal sphere for forwarding the "Emergency Plan" submitted to the Government in July 1945 by agricultural agencies and associations from the south of the country, which included, among other re-vindications, claims for credit facilities, storage, transportation, and technical assistance. The culminating point in Bouças's campaign was a speech delivered at the School of Economic Sciences of the Ribeirão Preto University. He then stated in a language that did not differ from the one employed by liberals that "never in Brazil has there been such an imperative need to develop agricultural production. We are witnessing a de-population of the countryside and an unruly expansion of large urban centers, with the ineluctable consequences of primary product shortages, price rises, and a progressive increase in the cost of living".<sup>17</sup>

In the same speech Bouças claimed to have read "with surprise and astonishment that, in the debates of the Industry Congress now being held in São Paulo, there was a recommendation to increase customs tariffs — doubtlessly one more barrier being raised to reinforce the defense of industrial interests to the detriment of the people's life".<sup>18</sup>

Bouças did favor planning, however, and in his journal — the Observador Econômico e Financeiro — he supported initiatives for the implementa-

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(17) Bouças, V., "Discurso de Ribeirão Preto", OEF, January 1945, p. 13.

(18) Idem, p. 11.

tion of key industries within the country. Considering the bulk of his positions, he can be viewed as a ("non-nationalist") developmentalist. Still in that same text he stressed:

"We do not oppose industry inasmuch as the industrial cycle reflects a more advanced stage in civilization. But we must not change industry into a weapon of exploitation (...) It is both a mistake and an infamy to say that those who advocate this point have any interest in Brazil's failure to attain industrial development so that it may remain permanently as a satellite of the great American nation and dependent upon it. I have often heard President Roosevelt assert to the Brazilian Government that a major wish of the American Government's is to see Brazil industrially organized and developed, for in His Excellency's opinion, as he himself stated and as indicated in Ambassador Assis Brasil's recent confidential report at the Itamaraty, industrialization means civilization".<sup>19</sup>

Another fine example of an industrialist who, while favoring industrialization, voiced some qualifications regarding the way industrial business was being implemented, is General An pio Gomes, head of the Co-ordination for Economic Mobilization in 1945 and later a member of both the Central Price Committee and CEXIM. With a view to controlling industrial prices, Gomes proposed to conduct a cost survey in the industrial sector. His proposal was discussed at the Federal Foreign Trade Council, of which he was a member, but received a wide veto led by the President of the National Confederation of Industries, Euvaldo Lodi, himself a Council member, on the grounds that the entrepreneurial class would repel an "inquiry into its accounting books".<sup>20</sup>

A still more significant example appears in the following passage quoted from a text elaborated for the National Industrial and Commercial Policy Council, where in 1944 nationalist developmentalist R mulo de Almeida proposed to create a Central Planning Board in Brazil:

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(19) Bou as, V., "Discurso de Ribeir o Preto", op.cit., pp. 11-12.

(20) Cf. OEF, March 1945, p. 5.

"The last but not the least of national conditions proper that require planning is the folly of our protectionist experience. From high customs tariffs we have gone up to deliberately protectionist ones, and for long decades the industrial illusion impoverished the agricultural majority, i.e., the average Brazilian citizen. Not only have consumption products become more expensive and second rate but there was also an increase in primary product costs. We have not adopted a fair protectionism meant to prevail for a limited period of time while the emerging industry goes through its apprenticeship, research labs are installed, technicians receive adequate training, the quality of raw materials produced in the country is improved and their quantity increased, communications are improved, and the market itself expands thanks to transportation facilities, to an increase in the agricultural population's purchasing power, and to a lowering of production and distribution costs".<sup>21</sup>

Nothing is changed in the content of the foregoing statement by the fact that shortly afterwards, in a rather conciliatory tone, Almeida stated that protectionism had been perhaps too high a price, that it had been so "despite industrialists' will, for one cannot fail to acknowledge their entrepreneurial spirit", and that the mistakes of excessive protectionism were a fait accompli. "backing out of which might be a still greater evil, perhaps even a catastrophe".<sup>22</sup> He was, after all, making a composition with the natural allies of those developmentalists who worked toward industrialization planning in the state area, i.e., with industrial entrepreneurial leaders, particularly Roberto Simonsen, he himself an outstanding CNPIC member.

The basic point we wish to underline here is that the acknowledgment of agricultural stagnation (cf. the negative growth rate for 1945), as well as of industry's inefficiency and excessive profitability cannot be taken as evidence of a predominance of the "agricultural bent" thesis. Even the

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(21) CNPIC, A planificação da economia nacional, Rio de Janeiro, Imprensa Nacional, 1945, pp. 73-74.

(22) Idem, p. 75.

most enthusiastic governmental experts advocating planned industrialization voiced their acknowledgement of that fact, and their independence from industrial class interests allowed them to do so.

The same happened to socialist intellectuals. Caio Prado Jr., in the chapter headed "The crisis of a system, 1930/?" of his now classical História Econômica do Brasil, published precisely in 1945, stated that:

"It has never been possible to enforce a deliberate and rationally protectionist policy that might simultaneously enhance and guide the country's industrial development. On the contrary, Brazilian industry has grown at the whim of customs tariffs dictated rather by Public Treasury needs than by a conscious goal of stimulating emerging undertakings that might flourish and sustain themselves with their own resources in the future; it has also grown at the whim of exchange rate devaluations and totally alien conjunctures, as was the case of the 1914/1918 war and its recent repetition in World War II. The result was the precarious and incomplete industry we now have, poorly equipped and onerous as it is, representing with its expensive and low-quality production a heavy tax imposed upon national consumers".<sup>23</sup>

Nelson Werneck Sodré, a historian who, being then still independent from the Communist Party, used a moderate or purely developmentalist language in his active intellectual militancy on behalf of industrialization, expressed above all else his worries about the political danger of that acknowledgement:

"There obviously is much truth in the outcry against industrial efforts if things are seen from a certain perspective. The worst of it, however, is that this attitude, for all its reasonableness, threatens to become generalized and fixed to a point where industry may eventually appear to all as some kind of evil force, the less forewarned minds regressing to the old slogan of an 'essentially agricultural country', which has been responsible for a large

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(23) Prado Jr., C., História econômica do Brasil, Rio de Janeiro, Civilização Brasileira, 1945, p. 307.

part of our backwardness, incidentally reflecting four centuries of almost exclusively rural toil".<sup>24</sup>

We clearly perceive a basic difference in perspective distinguishing developmentalist economists linked to the "private sector" from other economists engaged in promoting an industrialization project, i.e., nationalist developmentalists and socialists. In fact, the analyses made by state technical experts like Bouças, Gomes, Almeida, Barbosa de Oliveira and Ary Torres, as well as those made by socialist intellectuals like Prado Jr. and Werneck Sodré, pointed to different concerns than those voiced by men who were committed to the industrial entrepreneurial class, such as Roberto Simonsen, Euvaldo Lodi, Alde Sampaio, and Humberto Bastos.

It fell to the latter economists to advocate industrial interests, however immediatist they might seem. This is why, unlike the former, they struggled against the taxation of "excessive profits" and for the maintenance of customs tariff levels at a time when even defenders of the industrialization process echoed liberal objections in regard to these aspects. In their writings they combined arguments that identified them with state technical officials and others, reflecting their engagement with the sector they represented. Even Simonsen, who was by far the most refined thinker among private sector developmentalists, could not shirk the commitment of defending the more immediate interests of a class of which, in his capacity as President of the São Paulo Federation of Industries, he was the leader.

It should thus be no surprise that in the famous text where he proposes the "planning of a new economic structure" for the country, including direct or indirect state participation in steel, alcali, pulp and paper, aluminum, and oil industries, among others, we also read the following passage, which did not escape Gudin's attention:

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(24) Sodré, N.W., "A indústria no Brasil", OEF, January 1946, p. 129.

"The level of state interventionism should be studied in conjunction with the various class agencies, so that within the terms of the Constitution private initiative might be used to its utmost and no harm were caused to activities already operating in the country by the installation of new competing initiatives".<sup>25</sup>

While being the most outstanding figure in the campaign for planning, Simonsen was also an exponent in the campaign advocating customs protectionism. He was perfectly aware that as far as the class he represented was concerned, interest in the former campaign was minimal, and that if he did obtain any support for it from that class this was due to his performance at other "fronts", specially regarding the customs tariff issue. This circumstance no doubt contributed to the enthusiasm with which, by the end of the war, he continued to carry on the task that had attracted him since the 1920s, as per the following statement quoted from his reply to the text where Gudin had criticized his points of view:

"The criticisms addressed against customs protectionism in Brazil are altogether unfair. Customs tariffs, currently established in paper currency, have been progressively reduced since 1934 by our currency's domestic devaluation and by the lowering of the percent ratio of the value of those tariffs as compared to the value of imported goods. (...) We actually face an increasing and violent customs disarmament.

It is therefore not true that our tariffs have raised the cost of living, reflecting themselves on the production of primary goods and thereby reducing exports. The causes for the weakness in our exports of products originating from the country's most extensive areas are entirely different.

The imperialistic policies of large colonial nations and the despicably cheap Asiatic labor are chiefly responsible for our weak contribution to the world market for tropical goods".<sup>26</sup>

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(25) Simonsen, R., "A planificação da economia brasileira", op.cit., p. 36.

(26) Simonsen, R., "O planejamento da economia brasileira", op.cit., pp. 200-201.

To do Simonsen justice we must point out that, in fact, the average tariff protection level for national industry by the end of the war was no longer as high as at the time of establishment of the tariff system in 1934.<sup>27</sup> This serves to indicate that there was a considerable amount of confusion between customs tariff protection and the protection provided by wartime import difficulties in the discussions of the time. Liberal attacks against customs protectionism were launched rather for the sake of tradition than owing to an accurate analysis of what was going on. The confusion did not take long to clear up. In early 1947, back from the International Commerce and Employment Conference in preparation of the GATT, Luís Dodsworth Martins, who had been sent to that Conference by the Rio de Janeiro Commercial Association, at which he was director of the Economics Institute, reported his new enlightenment in a lecture delivered at that agency: "Our tariffs are generally stipulated at low rates as they are item-specific and have become disproportionate to price rises. Inversely, many of the countries that have benefitted from Brazilian low prices maintain high tariff rates for several of our export products".<sup>28</sup> Significantly enough, the 1945 anti-protectionist clamor was already being slowly hushed. By mid-1946, Finance Minister Gastão Vidigal declared that, although the government had no intention of introducing highly protectionist tariff rates, neither did it contemplate "neglecting its duty to preserve much of what national industry has managed to achieve even during the wartime".<sup>29</sup> In the following year and still in consideration of fiscal reasons, Horácio Lafer requested the Congress to support President Dutra in raising tariff rates.

The conjuncture of 1945-1946 may be viewed as a high point in the debate which went on for decades between liberals and pro-industrialization economists regarding protectionism. It must be observed that, in a way, that

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(27) See in this respect Malan et al., Política econômica externa e industrialização no Brasil (1939/1952), op.cit., sections 5-6.

(28) Martins, L.D., lecture reprinted in OEF, March 1947, p. 142.

(29) Cf. OEF, August 1946, p. 6.

debate also included in those days the question of the anticipated import permit mechanism, introduced in January 1945 with the explicit objective of avoiding the utilization of foreign currency reserves accumulated during the war-time in the import of "luxury or unnecessary products". Although the measure had no protectionist aims, it was denounced by liberals as an additional instrument to manipulate privileges for industrialists.<sup>30</sup> The mechanism was abolished in December of that same year by Pires do Rio, Finance Minister of José Linhares's provisional government, which elicited the following outraged comment from developmentalist Humberto Bastos:

"Mr. Pires do Rio (in order to please his friend Professor Gudín) has abolished the requirement for anticipated import permits. And now these two classical liberals may rest assured that they have dealt the worst possible blow against national economy. The Minister and his illustrious advisor (and Professor Gudín has always been a poor advisor on economic matters) did not quite realize the extent of that measure, but were convulsed with pain and overfilled with sorrow for consumers' conditions. (...) Consumers is what we all are, we who need machines, fuel, paper, everything. (...) Mr. Pires do Rio, who is regarded as a liquidation expert, is willing to liquidate Brazilian economy by opening our doors and windows wide for foreign commodities — and old ones, too — to get ahold of our market".<sup>31</sup>

The anticipated import permit requirement was reinstated in 1947 as an emergency measure to cope with the foreign exchange crisis. Some years later, though it still worked effectively as a protectionist measure, it became the object of liberal criticisms that were not directly related to protectionism. In essence, the anticipated import permit issue, as well as that of customs tariffs, eventually boiled down to a mere item in the Brazilian debate about

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(30) In its March 1945 issue the journal Digesto Econômico provides a brief report about a heated discussion then taking place in Brazilian newspapers concerning the newly approved decree on the anticipated import permit requirement.

(31) Bastos, H., Produção ou prosperismo, Rio de Janeiro, Martins Editora, 1946, pp. 123-125.



the foreign exchange question. In other words, the protectionist issue ceased to feature as an outstanding topic of individualized debate in the national intellectual scene as of 1946-1947. Quite obviously, what tipped the balance with tremendous weight in favor of this outcome was the final conclusion of the Geneva International Commerce and Employment Conference, later radicalized in the Havana Letter. In that conclusion free-traders' theses from Cordell Hull's United States were deeply undermined, thus leading — as pessimistically stated by neo-liberal Haberler in a visit to Brazil in 1947 — to the consequence that "as far as commercial policies are concerned, any nation may do as it pleases, provided, of course, it grants other countries the right to do the same".<sup>32</sup> The death of the champion of Brazilian protectionism, Roberto Simonsen, precisely in mid-1948 was, in a way, a curious historical coincidence.

In the course of our account of Brazilian economic thought it is hard to avoid digressions about such punctual questions as that of protectionism. But let us revert to our central issue. We have already covered a first indicator of the fact that in the ideological conjuncture of the time, as revealed by contemporary economic literature, we cannot distinguish a liberal predominance of the question of the structure that would be suitable for Brazilian economy over that of the economy's long-term future. Two other equally revealing aspects are also found in the economic literature of the period and reinforce the conclusion that there was no such hegemony, viz.:

1) A considerably large number of articles advocated a restructurization of the economy on the basis of both the domestic market and industrialization;

2) Collective manifestations, to which we have already referred, pointed with varying emphasis to the need to carry on the country's industri-

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(32) Haberler, G., "Proteccionismo alfandegário", D.E., October 1947, p. 59.

alization and often stressed the desirability of some decisive state support for the setting-up of an industrial infrastructure and of heavy industry.

Unfortunately, we have no room here for more than just a brief reference to these two aspects. Regarding the former, we may initially assure readers interested in finding liberally-oriented articles that the specialized economic journals of the period will not let them down. They will find, for instance, the writings by Heitor Marçal, an author for whom protectionism is "an indirect and arbitrary subvention",<sup>33</sup> or those by Antonio Osmar Gomes, who was enthusiastic about the prospect that, once the abnormal wartime period were left behind, one might immediately seek "economic equilibrium via prices and without any controls".<sup>34</sup> Readers will finally come upon editorials criticizing the level of state intervention in the economy and much additional evidence that that was a period brimming with liberal-oriented publications. But they will also find in the same journals a no smaller number of writings disclosing the realization that a profound change was under way in Brazilian economy, and what is more important, that such change was viewed as an indispensable prerequisite for overcoming national poverty.

Here again, no better author than Normano will help us see that the period's ideological inclinations were in the sense of assimilating industrialization. After studying the different views on the immigration problem in Brazil, the discussion of which was nurtured in those days by the belief that the economy was under full employment, Normano stated:

"Whatever the geographic regions they may cling to or the principles of immigratory policies by which they may be governed, what does seem obvious is that Brazilians will allow themselves to be led on in their plans by the firm belief that only fast industrialization can render their country economically autonomic, while at the same time preserving its political independence".<sup>35</sup>

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(33) The expression can be found in a paper written by Marçal and published in OEF, July 1945.

(34) See, by the same author, an article published in Revista Bancária Brasileira, January 1945, p. 18.

(35) Normano, J.F., "Qual o interesse do Brasil no após-guerra: imigração ir-

A good confirmation of the foregoing view is supplied by a report on the Teresópolis Conference which states that "Brazil's transition from an agricultural country into an industrial nation has been indelibly assimilated at the discussions held during the Conference".<sup>36</sup>

Part of that assimilation was a frequent reference to the link between industrialization and the establishment of a "domestic market" as contrasted with dependence upon international markets. Many are the texts — including some by not too widely known authors — which employ that expression in this sense. By way of illustration we may quote an article titled "The industrialization process", where its author, J. P. Coeli, disclosed some statistics with the aim to demonstrate that industrial production had already superseded agricultural output in terms of value, and welcomed that fact on the grounds that industrial productivity would be three to four times higher than the agricultural one.<sup>37</sup> We may also refer to an article published in Digesto Econômico under the heading of "The era of domestic markets", which drew attention to the fact that export trade from the state of São Paulo to the rest of the country was larger than the state's international exports, and concluded by asking, "Isn't an auspicious and stimulating domestic market the best protective shield for [the country's] wealth, both in times of quiet as in times of torment and uncertainty in the political arena and in world economy?"<sup>38</sup> We should further mention an article where its author, Marcos Monte Lima, stated that "the pivot of all the vicissitudes Brazil is now going through is, after all, its almost exclusive dependence on foreign trade hazards".<sup>39</sup> The same article further referred to a book which, though newly published, already influenced Brazilian intelligentsia for its analysis of the

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restrita ou selecionada?", D.E., July 1945, p. 80.

(36) The statement was made by an entrepreneur attending the Teresópolis Conference, Osório da Rocha Diniz. See "Três depoimentos sobre a Conferência de Teresópolis", D.E., August 1945, p. 99.

(37) Coeli, J.P., "O processo de industrialização no Brasil", D.E., February 1945, p. 31.

(38) Text by the editorial staff of Digesto Econômico, August 1945, p. 103.

(39) Lima, M.M., "Política econômica inadequada", D.E., February 1946, p. 103.

historical meaning of the crisis of the "colonial system" in the 1930s, i.e., Caio Prado Jr.'s História Econômica do Brasil.

Some of the basic analytical elements ECLA was to announce some years later were already present in the country's intellectual scene. The discovery of "inward development" was already being broadcast under the heading of a strengthening of "domestic market economy". There was also the argumentation that such strengthening would allow a reduction in the country's vulnerability to economic cycles as expressed in the idea that dependence on world economic hazards would be reduced. And, though the analytical clearness of the texts written years later by ECLA economists still had not been achieved, thus warranting the planning of "peripheral" countries' "problematic industrialization", the conception that economic planning is an indispensable tool for an efficient transformation of Brazilian economy's underdeveloped structure was already present in the discussions held by Simonsen, Ary Torres and others at CNPIC, as well as in several texts written at that time.<sup>40</sup>

Nor did there fail to appear a work denouncing the deterioration in the terms of trade, elaborated by developmentalist Heitor Lima Rocha, who not coincidentally worked at the newly created Research Study Department of the National Confederation of Industries.<sup>41</sup> This department, as formerly indicated, was sponsored by Roberto Simonsen and organized by Rômulo de Almeida upon the former's invitation.

Almeida himself was the author of a text dated 1946 which contained two other basic elements of ECLA's ulterior analysis. That text was a report he wrote about the International Commerce and Employment Conference, to which he had been sent as advisor to the Brazilian delegation by the Industry

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(40) See, for example, Prado Jr., C., História econômica do Brasil, op.cit., pp. 307-308; and Sodré, N.W., "Pobreza", OEF, March 1945, p. 122.

(41) The text is referred to in OEF, December 1946, p. 3.

and Commerce Ministry, where he worked at the time.<sup>42</sup>

Almeida initially pointed out that, whilst Americans did acknowledge that the industrialization of underdeveloped countries would not reduce international trade, but only change its import composition, they paradoxically advocated a marked reduction in protectionist barriers. In this respect, Almeida praised the stand taken by India and regretted the shyness of the Brazilian delegation, which agreed to make concessions to the U.S.A. in exchange for promises of technical and financial co-operation. This anticipated ECLA's later reply to those who accused it of proposing economic autarchies, i.e., the argumentation that industrialization results in a new composition of imports and an increase in import needs. The second element can be found in the account of Almeida's frustrated attempt to persuade the Brazilian delegation to record in the Conference's annals, following the example set by India, that in Brazil there was "unemployment of natural resources related to qualitative labor unemployment or underemployment (though a 'quantitative hyper-full employment' is claimed to exist) as either a permanent feature or the very crisis of our economy, highlighting [this fact] as a negative factor for world trade".<sup>43</sup> We know of no earlier use in Brazilian economic literature of a concept that was to become so essential to ECLA's future analyses.

The aforementioned text was written in late 1946. It is an additional proof that developmentalists were not "dormant" within that liberalizing conjuncture. The channels of effective power were closed to them, but those of public expression were inversely opening up. Their defense of planned industrialization was conveyed through every possible means and no space was wanting even in liberal journals like Digesto Econômico. At the newly installed Getúlio Vargas Foundation, which was to become the academic headquarters of economic liberalism throughout the subsequent decades, nationalist develop-

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(42) Almeida, R., "O Brasil e a Conferência do Comércio", OEF, January 1947, pp. 34-48.

(43) Idem, p. 40.

mentalist Américo Barbosa de Oliveira published in 1946 one of the agency's best sellers — his Desenvolvimento Planificado da Economia Brasileira. Two basic features may be distinguished in that book: first, the emphasis with which its author stressed the need to plan not only heavy industry but also agricultural activities, which he felt to constitute the essence of the domestic market and therefore be indispensable to the success of industrialization. Incidentally, his position on the question of the domestic market differed from the one advocated by liberal Daniel de Carvalho in regard to a global conception of development, but was identified with it in terms of the idea that industrialization could not do without a wide rural market. Secondly, Barbosa de Oliveira proposed an original planning modality based on drawing up a series of regional plans. He reached this conception through his emphasis on activities in which the physical-regional aspect is of crucial importance, i.e., agriculture, transportation, energy, mining and steelworks.<sup>44</sup>

Let us finally examine the period's collective manifestations, beginning with the Annals of the First Brazilian Congress of Economy held in late 1943. The conclusions relating to the work of Group III, which dealt with "the country's industrial development", remarked that "the economic progress observed in the country has unmistakably emphasized the need and advantages of a faster and more efficient development of our activities".<sup>45</sup> They additionally recommended "an intensification, by means of a well-defined industrial policy, of the country's industrialization, which has already begun under such favorable auspices".<sup>46</sup> Among some different ulterior considerations warranting the recommendation of specific policies, it is interesting to highlight the statement that "Brazilian economy is currently at a 'turning point' in its evolution, which has now been accelerated by the consequences

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(44) Barbosa de Oliveira, A., O desenvolvimento planificado da economia brasileira, Rio de Janeiro, FGV, 1946.

(45) Anais do I Congresso Brasileiro de Economia, Rio de Janeiro, 1944, pp. 51 and 100.

(46) Ibid.

of the war, and is undergoing a new phase of intensive and necessary industrialization".<sup>47</sup>

It must be noted that the congress was not really sufficiently progressive. Far from it, developmentalism shared the preferences of the meeting with liberalism. Even so, it would not be improper to view it as a symbolic landmark separating the stage of the origins of developmentalism from this ideology's maturational phase. From the group dealing with industrial development also came the following recommendations:

"That in this sense [of the actualization of industrialization], the Brazilian Congress of Economy applauds the creation of the National Commercial and Industrial Policy Council, expressing its best wishes that the latter's experience and efficiency may result in such conditions as to allow the creation, in due course, of a Ministry of National Economy;

That the applause of the entrepreneurial class be conveyed to the President of the Republic for the construction of the Volta Redonda Steel Mill and for the promotion of other initiatives aiming to install heavy industries in the country".<sup>48</sup>

One might say that a reference to the Annals of the Congress is improper in that perhaps they do not democratically reflect the average opinion of the economists attending that meeting. A reading of the Annals leaves us the impression that liberal economists preferred to ignore the conclusions of the group dealing with industrial development, which was led by Roberto Simonsen, and concentrated their battery fire on the question of monetary stabilization and control over excessive profits. In fact, there were some heated debates about an unsuccessful proposal of taxing excessive profits submitted by Eduardo Lopes Rodrigues and seconded by Eugênio Gudin.<sup>49</sup>

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(47) Anais do I Congresso..., op.cit., p. 53.

(48) Idem, pp. 100-101.

(49) Anais do I Congresso..., op.cit., 4th Ordinary Session (12/16/1943), pp. 421-424. Interestingly, a month later Minister Arthur de Souza Costa was to pass Decree-law no. 6224, which stipulated an additional income tax

If not actually improper, a reference to the aforementioned document would be at least insufficient in case the general orientation of the positions expressed therein were not confirmed by several other collective documents. The First Brazilian Industry Congress, held a year later and to which approximately 120 theses were submitted on the most varied aspects of industrial reality, confirms in the considerations and recommendations made by several of its commissions the developmentalist ideas conveyed at the former congress. The final text prepared by the second Commission, which had concerned itself with "Economic Planning", after acknowledging that "Brazil's economic evolution has been progressing at a highly insufficient pace for its population's needs", reads as follows:

"... that insufficiency in various sectors of private initiative has been acknowledged by the Federal Government, who either directly or indirectly, as in the case of steel, alcali, anhydrous alcohol, oil, pulp, aluminum, war equipment production, etc. has promoted the establishment of important activities in the country.

(...).given all these circumstances, it is imperative to rely on an economic planning that, within a given period, may aim to increase productivity and create the wealth required for us to achieve an adequate national income".<sup>50</sup>

But one must not exaggerate the significance of this document. It was elaborated by Simonsen in his privileged capacity as final relator, and

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on extraordinary profits. This measure was the synthesis of a proposal formulated by Gudín and Lopes Rodrigues and another one submitted by Gudín alone, both of which gained acceptance within the Congress: "that the surplus of payment means stemming from the need to buy bills of exchange without the corresponding import counterpart may be absorbed to the largest possible extent by the sale of Treasury Bonds and by offering to agricultural, commercial and industrial companies, under terms that may enhance their expansion, the financial resources required for their economic reequipment" (Anais do I Congresso..., op.cit., p. 186). Decree-law no. 6224 exempted from the additional tax those companies that should invest a sum equivalent to twice the amount of the tax payable in bills connected with equipment imports.

(50) This passage appears in the section reporting on Congress news, headed "Planificação industrial", OEF, January 1945, p. 28.



it is not hard to imagine that it would have stood at a certain qualitative distance, in terms of an overall view, from the individual theses discussed at the Congress; nor must we neglect its significance either, for after all it was the official document issued by a congress of the entrepreneurial class, and as such approved at a plenary meeting and widely published at the time.

Therefore, Simonsen, Euvaldo Lodi and some other industrial leaders with greater awareness were somehow reducing the indifference of their own class toward developmentalist problems. From those leaders' point of view, the Congress certainly did perform that task. More specifically, it also did the job of legitimizing a proposal for the creation of a Central Planning Board, which had emerged from that year's discussions at the National Industrial and Commercial Policy Council and counted, among others, with Minister Marcondes Filho, Euvaldo Lodi, San Thiago Dantas, Roberto Simonsen, and Ary Torres, with Rômulo de Almeida's assistance. It was no coincidence that, in opening the congress, Marcondes Filho made an emphatic reference to CNPIC's work and to the creation of the aforementioned Board.<sup>51</sup>

As we know, the meeting that was most representative of Brazilian entrepreneurs' economic thought in those years was the First National Conference of the Entrepreneurial Classes, held in Teresópolis, RJ, in May 1945 and attended by hundreds of people. Its general keynote was a liberalizing one in regard to the treatment given to both foreign capital and the state's level of participation in the economy. In the Commercial Policy section of the Teresópolis Economic Letter we find the statement that "the entrepreneurial classes acclaim the principle of free trade as the most appropriate general rule to strengthen our domestic markets and enhance the emergence of national economy".<sup>52</sup>

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(51) Cf. the text published in OEF, January 1945, p. 25.

(52) Conferência das Classes Produtoras do Brasil, Carta Econômica de Teresópolis, Teresópolis, RJ, 1945, p. 10.

Those who restrict their reading of the Letter to the foregoing statements and some other passages of similar content will remain under the impression that the Conference was opposed to industrialization. Those who read it in its entirety, however, will note, first of all, a certain ambiguity in its overall content, which must undoubtedly have resulted from the need to combine diverging positions into one only document. Secondly, they will find that the position in favor of industrialization — and state support to it, of course — makes its presence strongly felt in that document. In its introduction we read that "for the purpose of developing national economic forces it will be necessary to achieve by every possible means the strengthening of our productive resources, and to carry out the country's industrialization through safe and adequate processes".<sup>53</sup> It is not hard to figure out that the phrase "safe and adequate processes" was the conciliatory form employed by developmentalists to get round the anti-protectionism of the liberals attending the meeting. The section covering Industrial and Mineral Production leaves no margin for doubts as to what we are trying to point out. Its most important items are worth transcribing in full:

- "1. The Entrepreneurial Classes hereby declare their belief that progress and national economy's stability are closely related to the country's industrialization in that the latter, besides allowing an increase in national income, assures the diversification of production, which is an indispensable element in that stability and progress; and that the country's industrial development, to be harmoniously processed along with that of other productive activities and equitably distributed all over the national territory, must contribute to the implementation of a plentiful economy that will have a very good output at low costs. They therefore recommend that the state stimulate and guide the country's industrialization by studying its essential factors — markets, labor, raw materials, transportation, and energy.

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(53) Carta Econômica de Teresópolis, op.cit., p. 2.

"2. As a guiding criterion for state action they suggest a preliminary distinction between key and strategic industries, on the one hand, and the remaining ones on the other. The former should be more directly subject to state action — whether fiscal, ancillary or even creative where private initiative should prove omissive or incompetent. Other industries outside this group should be provided special assistance, but only upon their own request, state interference restricting itself in other respects to the safeguarding of common welfare".<sup>54</sup>

A last ample meeting to promote developmentalist consciousness in that period was the Second Brazilian Engineering and Industry Congress held at the Engineering Club in Rio de Janeiro. The highlights of the debates occurred during that event were the divergences around the ever controversial question of foreign capital participation in national economy. The position favoring a wide opening to foreign capital came out winner. We shall revert to this point later on, but for the moment it suffices to note that this victory does not allow us to characterize the Congress as a liberal one, notwithstanding the fact that the thesis of free international resource movement is an integral part of the principles of economic liberalism. In terms of our central issue, i.e., the ideology of industrialization, the Engineering and Industry Congress had little of an essentially liberal character. Two developmentalist currents joined issue during that event: that of nationalist engineers, which was defeated, and that of internationalist engineers, the winner. Both currents were clearly convinced of the historical importance of the industrialization process. Their divergences concerned the question of a larger state participation vs. a larger foreign capital participation in major undertakings, i.e., in industrial infrastructure services and heavy industry.<sup>55</sup>

In the programs of the major political parties being created in

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(54) Carta Econômica de Teresópolis, op.cit., pp. 6-7.

(55) See in this respect a review by economics reporter Omer Mont'Alegre, who attended the Congress, in OEF, February 1946, pp. 18-39.

those days there also prevailed a favorable stand toward state support to the country's full industrialization. Although they did not include what one might call a developmentalist strategy — a program for investments in heavy industry and the industrial infrastructure — they did open the way for their future members to make such definitions. Particularly surprising is the program presented by the National Democratic Union, which was to become Brazil's major liberal party: it included a proposal to "promote and stimulate industrialization in Brazil" by obeying, among others, the principle that "strategic industries shall be the state's responsibility or shall be entrusted to companies organized under its guidance, and whenever possible with state participation"; their proposed industrialization strategy should also obey the principle that "those light industries that are deemed most useful and that may attain a greater development thanks to the variety of national raw materials to be used by them shall receive special benefits for their installation".<sup>56</sup> The surprise, let it be said in passing, vanishes when one learns that UDN's program was strongly influenced by component members of the group called "Democratic Left Wing", i.e., those first-hour members of the Party who were soon to be marginalized.<sup>57</sup>

The Brazilian Labor Party, as one might expect (since it had been organized by Marcondes Filho, the Minister who supported Simonsen's proposal for the creation of a Central Planning Board), proposed in its program to develop an "economic planning that may impinge upon all sectors and aim, via state guidance, intervention or administration, to make the country's production provide for all our domestic needs and assure every laborer the obtention of essential goods at a low cost".<sup>58</sup> In the chapter covering industrial plan-

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(56) In Carmo, J.A.P., Diretrizes partidárias, Rio de Janeiro, Irmãos Pongetti, 1948, pp. 41-42.

(57) Cf. Basbaum, L., História sincera da República (1930 a 1960), São Paulo, Alfa Omega, 4th edition, 1976, p. 135.

(58) Carmo, J.A.P., Diretrizes partidárias, op.cit., p. 104.

ning PTB's program proposed "state control over key and strategic industries with a view to complying with national defense interests".<sup>59</sup>

The Social Democratic Party's program is less explicit in regard to industrial planning, but this does not prevent it from including among its propositions to guide economic and financial policies a proposal to provide "facilitation for those key industries that constitute the basis of national economy, noticeably steel mills, oil, and fuels in general".<sup>60</sup>

The Social Progressive Party, in the chapter of its program devoted to the "Economic Order", instituted as one of its principles the "acknowledgement of private initiative as the general rule, albeit subjected to the exceptions deriving from the need for socialization — after prior indemnification — of the wealth indispensable for the autonomic development of national economy, particularly with regard to iron, carbon, and oil industries, hydroelectric power, and communication and transportation services".<sup>61</sup> In the same chapter we find a recommendation for an "intensive pursuit of works pertaining to both the heavy steel industry and metal lamination".<sup>62</sup>

The program of the Brazilian Communist Party, unlike those presented by other major parties, is entirely omissive in terms of a declaration of principles on economic matters, but this by no means prevents us from stating that its members were on principle the most confident advocates of devising a large state participation to support industrial development.

At this point we must note that our reference to party programs is not meant as a proof that their chief members were persuaded of the aforementioned ideas, which incidentally featured among dozens of recommendations that were quite distinct in nature, even if not contradictory. It is a well-known fact that party programs are often hastily drawn up to comply with legal re-

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(59) Carmo, J.A.P., Diretrizes partidárias, op.cit., p. 105.

(60) Idem, p. 75.

(61) Idem, p. 197.

(62) Idem, p. 198.

quirements. It is highly likely that many active members of those parties never even read their programs. None of this, however, detracts from the evidence that in Brazil, by the mid-1940s, it seemed convenient to no one to be portrayed as opposing the pursuit of industrialization. The message read to the Congress in 1947 by President Dutra — who was, after all, ultimately responsible for his government's liberal economic policies — is an interesting confirmation of this point. Let us see, for example, the following extract from his speech:

"Besides the general financial and economic guidelines designed to launch an immediate attack against inflation, which boil down to both budgetary equilibrium and production increase and hierarchization, a longer term action plan also imposes itself with a view to the progressive strengthening of state finance and national economy, which are, by the way, interdependent goals.

Where the reinvigoration of national economy is concerned, some of the steps to be taken are of a typically economic nature, viz.: to provide industrial equipment for heavy industries, including electric power plants, coal and oil industries, heavy chemical industries, and light metal mechanics and metallurgy; to expand the domestic market via an increase in the purchasing power of the rural masses; and to support our export sales of products that have greater stability in the international market".<sup>6 3</sup>

### iii. "State directionism" and foreign capital

In the economic literature of the post-war transitional period we find, even more so than the terms "protectionism" and "excessive profits", expressions like "interventionism" or state "directionism". Within that conjuncture several historical factors contributed to turn this topic (along with that of inflation) into the most hotly debated issue of the day. First, as we have seen, there was the actual problem of limiting industrial profits, which sensibilized consumers in general. Their disproportionate increase was

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(63) See section "Crônica Parlamentar" in OEF, March 1947, p. 20.

attributed by liberals to state protection, which neglected consumers and, on behalf of those profits, reinforced the special conditions provided by the war. Secondly, there was foreign companies' actual interest, supported by their national sympathizers, in obtaining, expanding or assuring a profitable participation in those sectors upon which, since the preceding government, the state had begun to exercise several types of nationalist-oriented control to a point where it even suggested itself as a major producer. Thirdly, there was an actual concern in the liberal opposition to the "Estado Novo" to disarticulate the administrative machinery assembled by Vargas, which stood for political power. It is chiefly in regard to this question that the language then employed is more markedly "anti-directionist". We might further indicate a fourth factor, viz., the convenience of creating a hostile atmosphere towards the constant threat of increasing taxation on private companies resulting from continuous deficits in the state's budgets.

The foregoing set of interests nurtured a powerful liberal attack against state participation in economic matters. At the other end of the ideological continuum, socialists and nationalist developmentalists defended themselves as they could. Between the two poles there was the intermediary position taken by developmentalists linked to industrial interests, who repelled tax raises and in principle did not oppose a wide foreign participation, as well as those developmentalists who, despite working within the governmental sphere, favored a generalized presence of foreign capital within the country.

Political victory, even if only a temporary one, was no doubt achieved by liberals.. In the first place, though customs tariffs did not drop in terms of nominal values, they continued to drop in terms of real values. Moreover, the system of anticipated import permits was virtually extinguished by late 1945 and its reinstatement in 1947 was due to a disequilibrium in the balance of payments and to recommendations made by liberals themselves. Second, the attempts to raise taxation on legal entities were neutralized. Third, the

possibility was reopened for a larger foreign participation in national economy, including the oil area. Fourth and topmost, a whole number of control and guidance agencies such as CNPIC, DNC, CME, CPE, and CNP were eliminated, while other major agencies like DASP, CTEF, and CFCE were emptied of their planning activities. CFCE was actually extinguished by the end of Dutra's government to be replaced by the National Economic Council; the latter, however, was deliberately emptied at birth following some liberal skirmishes at the National Congress which defeated an original project submitted by Daniel Faraco — a project that was more substantive than the one finally passed.<sup>64</sup> No state companies were put under private control, but only one firm — the São Francisco Hydroelectric Company — was created to comply with a determination of the Constitution of 1946. As for the extinction of CADE, which had been created by the "Malayan Law", a more appropriately descriptive expression for its fate would be "anihilation", such was the enthusiasm with which liberals struggled against it and celebrated its disappearance in the very year of its introduction, i.e., 1945.<sup>65</sup>

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- (64) The most extensive study about the process of extinction or emptying of the agencies in charge of economic guidance and control during Dutra's government is Sonia M. Draibe's Rumos e metamorfose: um estudo sobre..., op.cit. One of its chapters includes some interesting case studies about DNC, DASP, and CNE. It is curious to note that, for all her acknowledgment and description of that process, the author does not feel that there was an actual return to economic liberalism during Dutra's presidential term or that the "previously defined interventionist pattern" was dropped: "the permanence of mechanisms to regulate credit, profits, and wages, of regulatory institutes and autarchies, and finally of public enterprises confirm the public sector's decisive presence during that period" (p. 177). Her conclusion is that what did occur was merely a neutralization of the tendency toward a reduction in the centralization of national economic administration as observed during the "Estado Novo". In her thesis, Draibe is chiefly concerned with demonstrating the existence of an inexorable tendency towards the establishment of a governmental basis to support industrial capitalist accumulation in Brazil. In our opinion, that thesis would hold good even if the author had admitted the fact that during Dutra's government there was a temporary reflux in that process. After all, the institutional analyses made by the author herself are a sufficiently rich material to demonstrate that reflux.
- (65) The initials stand for the Economic Defense Administrative Commission created by Decree-law no. 7666 of 6/22/1945, nicknamed "Malayan Law" after the somewhat Asiatic features of its author, Justice Minister Agamenon Magalhães. We shall make further references to the "Malayan Law" later in the present text.



At the political level of the decisions made by the executive and legislative powers we may also speak of liberals' victory in the discussions about such matters. At the level of intellectual debate, on the other hand, it is always much harder to identify "winners" and the use of expressions like "prevalence" of a given current would seem more appropriate. The only flagrant defeats suffered in that period, as we have seen, pertained to the concept of an "agricultural bent" and above all to liberals' position in the discussions concerning the level of Brazilian customs protection. As for the questions relating to "directionism", with the exception of protectionism, there was a predominance of liberal views and an effective ideological strengthening of the concept of a "primacy of private initiative", in contradistinction with the advancement of the ideology favoring state intervention up to the end of the "Estado Novo". However, that predominance did not go unchallenged and a highlight in the challenge to it was the view that capitalism, democracy and planning — the latter somewhat vaguely defined, to be sure — are mutually compatible concepts.

It is in the question of taxation raises that liberal predominance seems to have spanned a larger ground. We have found little material in support of a developmentalist-oriented fiscal reform. Looming above was the recommendation for a postponement of governmental investments until some future time when, by curbing expenses, one might succeed in eliminating the "waste" and "sumptuary expenses" of Vargas's government. At the National Congress, House Representative Horácio Lafer, a developmentalist entrepreneur then rapidly ascending in politics, sought to get approval for a tax reform based upon a raise in the income tax payable by companies from 8 to 23% of their profits. UDN opposition, under Aliomar Baleeiro's leadership, managed to defeat that project by counterproposing a raise in the income tax payable by individuals in the higher income brackets — a project that was to fare just as badly as the former one. The Annals of the Congress recording the discussions about this project, which we have not consulted, probably contain some interesting

research material. According to references dating from that period, the most constant argumentation seems to have been that profits are the basic source of investments and therefore of income and employment expansion, and they should not be absorbed by the state since the latter would be likely to apply it to activities that would bring only a small contribution to the country's economy. According to liberal Nogueira Porto, in an article where he supports the stand taken by House Representative Baleeiro in this respect, "the basis of our economic prosperity lies in production and commerce, and these, being still incipient in Brazil, cannot bear so heavy a load as is now meant to be placed on their shoulders".<sup>66</sup>

Although the concern about a tax reform was rather frequent in the period under study, few were the texts covering this topic along developmentalist lines. Among them we might refer to an unsigned article that recommended as a general guiding rule for the reform that it be subordinated to a general economic direction plan.<sup>67</sup> Above all else there was a long series of articles by Aristóteles Moura, an author concerned with detailing the federal budget and raising the technical standard of the decisions relating to the application of governmental resources. Moura was guided by a clear-cut political objective of legitimizing the Congress' legal ascendancy over the executive power in defining that application. In one of his articles, in referring to Congress discussions about the tax reform and specifically to the question of a heavier taxation on higher income, Moura regretted that "against a heavier taxation on higher incomes the need is again claimed to accumulate capital", and reminded his readers that the increase in fiscal revenues aimed not only

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(66) Nogueira Porto, J.L.A., "A reforma do imposto de renda", D.E., March 1947, p. 91.

(67) This article was published in OEF, April 1945, pp. 33-47. Sonia Draibe's earlier quoted thesis describes the attempts to extinguish DASP, the agency in charge of elaborating proposals for the Federal Government's budget. Her thesis shows that at the heart of the resistance against DASP's extinction was the claim of its technical experts that it be assigned the task of planning the country's economy. See section 1.2, chapter 1, Part II of Draibe's thesis.

to cover current expenses but also to promote a "legitimate capital accumulation".<sup>68</sup> We should note that in this series of articles, written in 1947, their author avoided advocating tax increases on company revenues, probably for considering them politically unfeasible at that time.

In fact, the political situation compelled developmentalists to be somewhat reserved in respect to the creation of instruments to secure resources for essential investments. The most appealing proposal at the time, given its potentialities, was that of creating a number of financial institutions like a Rural Credit Bank, a Mortgage Bank, an Industrial Credit Bank, an Import and Export Bank, an Investment Bank, and a Reinsurance Bank. But this proposal was hard to support. It was included in a wider project for the creation of a Central Bank then going through Congress channels, but it was an item in which the problem of financing was intermingled with the suppression of sectorial controlling agencies like the Sugar and Alcohol Institute, the Pine Timber Institute, the Salt Institute, etc., all within a liberal framework whose early contours had already been outlined in conservative economists' interventions at the First Brazilian Congress of Economy in late 1943.<sup>69</sup> The only idea then attracting developmentalists in terms of the financial question was a frustrated attempt to create a Brazilian Social Security Institute within the Labor Ministry. The project contemplated the centralization of funds from welfare agencies and federal savings banks — whose application was also severely criticized by liberal economists — and their top priority application in a far-reaching Popular Housing Plan.

We must note that among the topics related to "directionism" that of the tax reform was the one arousing least passion. Liberals needed not adopt an aggressive position toward this question, it being enough for them to avoid

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(68) Moura, A., "Os quatro impostos federais", OEF, November 1947, p. 22.

(69) See "Anais do I Congresso Brasileiro de Economia", op.cit., sections discussing "Banco Central" and "Combate à Inflação". See also the news articles about questions pertaining to the project for the creation of a Central Bank in Revista Bancária Brasileira, particularly the December 1946 and August 1947 issues.

any tax raises above the low 3% threshold. In this respect they even enjoyed entrepreneurs' natural support, including that of their more developmentalist-oriented segment. The case was different with regard to foreign capital: a whole ideological struggle was in order to assure positions that were in jeopardy.

The discussion about foreign capital centered around two major actual and intertwined questions, viz., that of the legislation ruling its participation in mining and energy activities and that of profit and capital remittances. The former calls for a clarification: (a) the Constitution of 1934, duly supplemented by the Water Code and the Mining Code of the same year, made federal authorizations or permits mandatory for the industrial exploration of mines and ore beds, as well as water and hydroelectric power (Article 119); (b) those authorizations or permits could be granted to companies installed in Brazil even if organized by foreign citizens (Article 119, § 1); (c) however, that same Constitution equally commanded a progressive nationalization of mines, ore beds and waterfalls or other sources of hydraulic power, which were viewed as basic or essential to the country's economic or military defense (§ 4); (d) the Water Code set up the criterion of a "historical cost" of the equipment and facilities as a basis for stipulating service charges and calculating the capital to be recovered in the event of nationalization. The "historical cost" is the value of fixed assets as registered at the time of investment less depreciation and without monetary correction; (e) the Constitution of 1937 altered that of 1934 with regard to foreign capital participation in those sectors, determining that "authorizations shall be granted only to Brazilians or to companies formed by Brazilian shareholders"; (f) the Mining Code was revised in 1940 to conform with the determinations of the Constitution of 1937 in terms of shareholders' nationality; (g) in the specific case of oil, the National Petroleum Council, created in 1938, was legally entitled to pronounce its views on the convenience of granting authorization to applications for the research and exploration of oil beds, natural gases, and bituminous

rocks whenever they were filed with the Federal Government; it was also entrusted with numerous assignments relating to the organization and control of all activities pertaining to oil refining, transportation, and distribution. Up to 1943, under Horta Barbosa's headship, CNP had a markedly nationalist inclination in favor of state control. By 1944, its new President, Colonel João Carlos Barreto, already expressed favorable views toward foreign capital participation in that sector; (h) early in the same year President Vargas, who had formerly stayed away from the debates on this topic, confirmed a reversion in the nationalist trend by issuing a decree — in contradiction with the Constitution of 1937 — whereby he opened a possibility for the creation of mining companies owned by foreign shareholders with 50% of bearer stocks, their actualization depending upon his express approval; (i) CNP also became receptive to private refinery projects and called for bids for such projects by late 1945.

The economists' meeting of 1943 and the entrepreneurs' meeting of 1945, to which we have already referred, as well as the programs of some of the major political parties were in favor of a wider receptiveness to foreign capital. The First Brazilian Congress of Economy stated that "private foreign capital applied in the country is useful and advantageous to national interests" and that "exchange rate freedom is beneficial as regards transfers connected to such capital".<sup>70</sup> The Teresópolis Letter recommended "facilities and incentives for the inflow of foreign capital with social and economic goals" and that "foreign capital participation without preponderance [be] permitted even in mining industries and electric power companies".<sup>71</sup> PSD's program recommended "stimulating the formation of national capital and securing foreign capital that may concur to the expansion of our wealth",<sup>72</sup> while UDN's program

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(70) "Anais do I Congresso...", op.cit., p. 104.

(71) Carta Econômica de Teresópolis, op.cit., p. 9.

(72) In Carmo, J.A.P., Diretrizes partidárias, op.cit., p. 75.

asserted that one must "resort to foreign capital, which is required for national reconstruction undertakings and specially for the utilization of our unexplored reserves, by giving it an equitable treatment and freedom for the remittance of profits".<sup>73</sup>

The highlights of this debate in the years preceding the elaboration of a new Constitution occurred shortly before the installation of the Constituent Assembly, during the Second Brazilian Engineering and Industry Congress held at the Engineering Club in Rio de Janeiro, in January/February 1946. The two outstanding characteristics of that meeting were its developmentalist orientation and the debate between the engineers favoring ample freedom of movement for foreign capital in national economy, who were the majority, and those who opposed such freedom in variable degrees. The predominance of the former view was recorded, in particular, in the resolutions passed with regard to mining activities, including oil. There was, for example, a recommendation that the Mining Code be changed to permit stimulating the exploration of oil and other mineral riches by means of foreign resources. Concerning the specific case of oil there was a recommendation that "mixed capital societies be organized with the participation of foreign capital and agencies specializing in oil, for the purpose of researching, drilling and refining oil, with due observance, as regards capital, of a parity in the shares held by the government and by Brazilian residents".<sup>74</sup> We also find a recommendation that "conversion into foreign currencies be facilitated for the profits accrued by foreign capital invested in the mining industry in Brazil, provided that industry generate a higher availability of foreign credits".<sup>75</sup> Those resolutions were not unanimous, however. The latter one, for example, was passed after a vote at which the defeated position was emphatic: "May no facilities be grant-

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(73) Carmo, J.A.P., Diretrizes partidárias, op.cit., p. 40.

(74) In Mont'Alegre, O., "Segundo Congresso Brasileiro de Engenharia", op.cit., p. 25.

(75) Idem, p. 27.

ed to foreign capital for its conversion into the original currency".<sup>76</sup>

In the electric power sector the major struggle centered around a revision of the Water Code for the purpose of altering the criterion for the calculation of service charges and recoverable capital. In this respect there was greater equilibrium between the conflicting positions. On one side, eleven engineers subscribed to a replacement of the "historical cost" criterion by that of a "fair value" — a term employed to describe periodic revaluations of both service charges and capital that should take into account the monetary correction of fixed assets. Their argumentation stressed the shortage of national capital and the need to provide special stimuli for the inflow of foreign capital so as to compensate for the incentives offered to investments in the reconstruction of Europe. On the other side, fourteen engineers subscribed to a motion whereby they opposed the intended modifications in the Water Code. They claimed that foreign capital's major goals were the accrual and remittance of profits and that this rendered the settling of foreign debts ever more asphyxiating. They further proposed that foreign investments be steered to the consumption goods sector and that foreign capital application in public services be made preferably in the form of loans.

A few months later the new Constitution was promulgated, incorporating two major alterations with regard to foreign capital inflow into mining and energy. First, it no longer contained the provision of the Constitutions of 1934 and 1937 that called for a "progressive nationalization of mines, mineral beds and waterfalls". Second and more important, it reinstated the determination contained in the Constitution of 1934 (which had been superseded by the nationalism of the one promulgated in 1937) to the effect that authorizations or permits for the exploration of mineral resources and hydraulic power could be granted both to Brazilians and to companies organized in the country, re-

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(76) Mont'Alegre, O., "Segundo Congresso...", op.cit., p. 27.

ardless of their shareholders' nationalities. For a more complete political victory of the view favoring foreign capital all that seemed wanting was a modification of the Water Code in terms of its historical cost criterion, for which liberals expected to obtain approval from the Congress in due time.

This was the sequence of events that marked the beginning of the great historical debate about oil that was to mobilize large segments of Brazilian society for years on end. In March 1947, General Juarez Távora, a former adherent to the nationalist solution now turned into an advocate of a conciliatory solution with foreign capital participation, decided to check the popularity of his position within his own corporation and delivered a lecture on the subject at the Military Club.<sup>77</sup> His major proposal consisted of the creation of mixed capital companies with 40% of foreign capital, 40% of national private capital, and 20% state capital for the research, exploration and drilling of oil. He sought to wrap his message in a nationalist tone by making up for it with subsidiary proposals concerning the predominance of national capital in oil processing and transportation, and the progressive nationalization of oil derivative industries. Távora's lecture was followed by a heated debate which marked the beginning of a widespread nationalist campaign. During that debate nationalists lay emphasis on the position prevailing within the CNP under Horta Barbosa's headship, i.e., the defense of financing oil research and drilling in Brazil with profits accrued in the refining sector, as per the Argentine strategy.<sup>78</sup>

However, Távora's lecture still did not reflect the great threat that was to loom over the nationalist perspective, i.e., the Preliminary Project for Petroleum Statutes endorsed by the CNP on the strength of a proposal submitted by Standard Oil and Shell. As the sole constraint on foreign capital

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(77) Conference reprinted in Revista do Clube Militar, May-June 1947, pp. 68-71.

(78) This argumentation was repeated at a later conference by Horta Barbosa, commented upon in Revista do Clube Militar, July-Aug. 1947, p. 94.



this document proposed that, for domestic consumption purposes, oil refining and transportation companies must have a minimum sixty percent of Brazilian capital.<sup>79</sup>

It took General Horta Barbosa little time to react. A few weeks after Távora's lecture he himself addressed an audience at the Military Club in a vehement reaffirmation of the nationalist point of view. He asserted that oil exploration by Brazilian capital was the only "patriotic solution" and that it was "not admissible to bestow upon third parties the control over a wealth that is intermingled with national sovereignty".<sup>80</sup> He aptly neutralized any possible charges of being anti-Americanist, such as might be enhanced by the new international conjuncture, by referring ironically to the "psychosis of a risk of aggression against the American continent" and stressing that, should the U.S.A. go short of oil in the event of a conflict, the American people had every reason to depend on Brazil's assistance.<sup>81</sup> The flag was thus dropped for the national oil campaign. (We shall revert to this subject in the coming chapter).

For the time being, we should summarize the economic arguments found in the debate about foreign capital in the post-war transitional period. They were essentially the same that would continue to be used thenceforward, with only some variations in the emphasis given to one or another. They were also deeply entangled with the political and ideological content of the discussions. For the purpose of making that summary we should again resort to our tables showing the currents of Brazilian economic thought (see Part I, pp. 348-349).

Two major positions may be distinguished in that debate. In the first place there was liberals' view that the shortage of capital and technical know-how makes it indispensable for poor countries to offer guarantees and incen-

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(79) Cf. Martins, L., Pouvoir et développement économique, op.cit., pp. 301-302.

(80) Revista do Clube Militar, July-August 1947, p. 94.

(81) Idem, p. 95.

tives to foreign capital investments, specially in those sectors that demand huge financial resources. The alternative represented by direct state intervention was said to be a serious mistake from the economic point of view, in that resources would have to be obtained internally to the detriment of both consumers and private investments in other sectors. Moreover, the state was viewed as an incompetent entrepreneur who provoked a serious waste in the economic system. Allied to liberals was that portion of developmentalist technicians within the governmental sphere who diffused the idea that the indispensable changes required by a poor and backward economy like the Brazilian one could not do without foreign contributions in the form of capital and technical know-how, particularly in those sectors that demand a vast mobilization of resources.

The second stance was the one identifying foreign capital invested in mining and energy — if not foreign capital altogether — with interests that antagonized the structural transformation of the economy, i.e., with classical imperialism. Foreign companies were said to explore those activities with the major goal of increasing their own capacity to remit profits to their parent companies abroad. They thus generated crises in the balance of payments and difficulties in the import of essential goods, thereby reducing the economy's general accumulation capacity and subordinating the expansion of activities that were crucial for economic development to the conveniences dictated by the principle of maximizing profitability at the international level. In the specific case of mining, they were said to cause a gradual exhaustion of national raw materials at their convenience, thus favoring only their own profitability and the progress of advanced countries, to the detriment of the future of national development. Allied in this view were both nationalist developmentalists and socialists, the latter being its most active defenders. Caio Prado Jr., in a chapter titled "Imperialism" in his História Econômica do Brasil, wrote that "imperialism acts as a powerful factor of exploitation in national economic life", for it not only subtracts the Brazilian labor sur-

plus, as would capital of any kind, but also sends it abroad, thus enhancing "deficiency and slowness in Brazilian capitalist accumulation".<sup>82</sup> And he further stated in that classical work whose first edition, as we have pointed out, was published in 1945:

"On the other hand, imperialism's totalitarian intervention in Brazilian economy warps the latter's operation, subordinating it to alien factors and hindering its normal structuralization on the basis of the true and deep needs of the country's population. The best illustration of this is to be found in the role imperialism has played toward keeping Brazilian economy tied to the primary function, inherited from its colonial past, of supplying tropical goods to the international market. The action of imperialism is sharply opposed, in some essential aspects, to the factors now already favoring a definitive rupture with that past. The stimulus it brings to [the primary] function (as we have just seen, among others, in the flagrant and rather typical case of cotton) pushes into the background every and any activity that is likely to free the country from its colonial contingencies. In other cases, the action of imperialism is direct and even clearer: a case in point is the concealment of Brazilian iron beds, left abandoned to serve as potential reserves for international steel trusts who will determine when and how to explore them at their own convenience. We could further add to this the political manoeuvres of imperialism, which, thanks to its capital's deep penetration, become top ranking factors in the country's public life and naturally act in accordance with interests that are totally alien to it.

Finally, the action of foreign capital in Brazil works as an element that causes constant disturbances in national finances".<sup>83</sup>

The Communist Party, even lacking the National Liberating Alliance's radicalizing disposition and broadcasting the pacifist slogan of a "National Union" toward the consolidation of democracy, to which it gave priority, returned to the Brazilian political scene with the same overall conception about

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(82) Prado Jr., C., História econômica do Brasil, op.cit., pp. 290-291.

(83) Idem, p. 291.

national economy: the Brazilian historical stage was one of breaking its neo-colonial links and building a bourgeois democracy; priority being demanded for the struggle against imperialism.

Developmentalist technicians and entrepreneurs tied to industrial interests had variable individual views on that question and avoided sticking to principles and accepting collective commitments. The only more immediate interests involving them in the dispute were those of the oil refining sector, which affected important leaders like Roberto Simonsen, Euvaldo Lodi and San Thiago Dantas. At that front they had found in the recent past reasons both for an anti-imperialistic feeling, given the EXIMBANK's refusal to finance them as a result of the pressures put upon that agency by large international companies,<sup>84</sup> and for opposing state control in view of the resistance of CNP authorities, who, during Horta Barbosa's administration, advocated the placement of that activity under state control. There cannot be a better description of that situation than a passage in Luciano Martins's study about the history of the sector, which stated that by the late 1930s national entrepreneurs would "find themselves in a situation that is classical to them: in the cross fire between foreign interests and that sector of bureaucracy struggling for state control".<sup>85</sup> Generally speaking, private sector developmentalists adopted a pragmatic stance in regard to foreign investments, showing an inclination to accept them but equally accepting state investments, though without any demonstration of enthusiasm, provided neither of them affected national private interests. In other words, they avoided any definition of any single formula for combining capital in investments to be made in sectors viewed as strategic ones. In fact, this attitude characterized them even in the golden days of liberal outbursts during the post-war democratic transition.

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(84) Cf. Martins, L., Pouvoir et développement économique, op.cit., pp. 301-303.

(85) Idem, p. 303 (our translation).

A point regarding which they did show some enthusiasm was the advocacy of planning. This attitude was largely important for the legitimization of that concept as in that period of institutional and political rearrangements some fierce attacks were launched against the former government's planning agencies with a view to the quick suppression of the different interventionist instruments then originated — agencies and instruments that, let it be said in passing, it was in the interest of liberals to associate to fascism and communism within that political conjuncture.

The promulgation of the anti-trust law (known as the "Malayan Law") in 1945 was a privileged occasion to launch a campaign of ideological association between dictatorship and state interventionism. The major points in that law are well-known: (a) it defined a series of "acts that [were] contrary to national interests", as for example, "influencing the market so as to favor the establishment of monopolies, even if only regional ones"; (b) the companies at fault should receive notice from the Economic Defense Administrative Commission (CADE), and in case they did not comply with the latter's instructions within the term stipulated, they would be subject to intervention lasting as long as deemed necessary for the restoration of "normality"; (c) those same acts would be considered "detrimental to public interests" in case they involved either foreign companies or national companies linked to foreign firms, or companies connected with the "armament industries, heavy industry, publishing companies, newspapers, radio stations, and television or broadcasting and propaganda enterprises"; (d) the Federal Union would expropriate those companies engaged or involved in "acts that are detrimental to public interests"; (e) any merger, incorporation, etc. between companies in major industrial sectors, as well as in mining, public services and the press, must receive prior authorization from CADE. The "Malayan Law" was soon vehemently challenged by the democratic opposition to Vargas's regime,<sup>86</sup> not so

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(86) The full text of the "Malayan Law", as well as UDN's opposition to it can be found in V.M. Franco's formerly quoted A campanha da UDN.

much for its "anti-trust" elements, in fact, as for its potentially anti-democratic character. The opposition to Vargas had just recently received (with natural exasperation) the "electoral law" or "Agamenon law", which, as we have seen, was an instrument to manipulate the elections that were to be held at the end of the year. The "Malayan Law" now allowed for ample freedom of inspection of and intervention in the press, and one particularly feared any eventual pressures that might be exercised upon the oppositionist newspaper chain owned by Assis Chateaubriand, the "Diários Associados".

Therefore, there were sound political grounds for a widespread rejection of the "Malayan Law", i.e., the fear of censorship being exercised on the press and on democratic aspirations. But the "Malayan Law" also gave rise to criticisms coming from the entrepreneurial sector, which naturally aspired to preserving as high a level of autonomy as possible in relation to the state's administrative machinery. The atmosphere of redemocratization was propitious and allowed for an ideological identification between economic liberalism and political liberalism. The entrepreneurial classes, through the Federation of Commercial Associations, the CNI, and Central Brazil's Union of Agriculture and Livestock Breeding Associations, voiced their protest in a letter forwarded to Vargas.<sup>87</sup> In that letter they stated the following basic points: (a) they challenged the possibility (implicit in the "Malayan Law") that inflation could be caused by company price manipulations and switched the responsibility for it over to the government and to wartime conditions; (b) they asserted their objection to the creation of a "bureaucratic-inquisitive apparatus" (the CADE) for the alleged purpose of fighting trusts and cartels; (c) they protested against the discriminatory attitude toward foreign capital; (d) they stated that Decree-law no. 7666, by acting as an obstacle to free initiative and production expansion, aggravated the rise in the cost of living, hindered

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(87) Reprinted in Carone, E., A terceira República, op.cit., pp. 369-377.

the establishment of national capital and the import of foreign capital, violated widely accepted international commitments, disturbed the operation of companies that generated wealth for the country, and put the latter's everyday activities under the absolute tutelage of a governmental committee; and (e) with the proviso that in principle they felt "anti-trust" laws to be legitimate, they concluded their letter with a democratic declaration of faith to the effect that "given its relevance and complexity, the matter could only attain a satisfactory solution through a Parliament where, all shades of public opinion being duly represented, there could be a possibility of assessing the average national thought in its clearest expression".<sup>88</sup>

It is worth noting that entrepreneurs' recommendations began to be followed to the letter in the subsequent year. The very editor of the "Malayan Law", Agamenon Magalhães, former Justice Minister in Vargas's dictatorship and now a constituent House Representative turned into a democrat, while presiding over the Constituent Assembly's Committee discussing the topic of "Economic and Social Order" and facing obstacles that required several withdrawals,<sup>89</sup> conducted a movement that led to the inclusion of the following statement in the new Magna Carta: "the law shall curb every and any form of abuse of economic power, including mergers or groupings of individual or social enterprises of whatever nature that may have the goal of dominating national markets, eliminating competition and arbitrarily increasing their own profits".<sup>90</sup>

The resistance against the "Malayan Law" was a major ideological reinforcement to the "anti-directionist" campaign, a situation that served the interests of economic liberalism but not necessarily those of political liberalism. The episodic alliance between them enhanced an identification be-

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(88) Carone, E., *A terceira República*, op.cit., pp. 376-377.

(89) Cf. OEF, May 1946, section "Crônica Parlamentar", pp. 16-22.

(90) Brazilian Constitution of 1946, Article 146.

tween the two concepts, much to liberals' satisfaction. From then onwards, after the extinction of CADE, liberals' main targets became the other control and guidance agencies within the economy, particularly sectorial autarchies.

At the Teresópolis Conference the committee dealing with commerce, which was the most radically liberal among all, came close to including into its recommendations the immediate elimination of such agencies, but in view of an unexpectedly fierce resistance to the idea they chose to recommend that "as for the institutes or autarchies that officially interfere into the economy, [the committee members] recommend the appointment of a technical commission to investigate those agencies' activities so as to consider the advisability of either eliminating or transforming them through a review of the pertinent legislation, their activities being restricted to the spheres of economic policies and techniques" and their direct or indirect performance of productive or commercial functions being interdicted.<sup>91</sup> An extensive list of texts were written with the same purpose. For example, the editorial of the February 1946 issue of liberal magazine Digesto Econômico announced the approach of a "turning point" in the hopes that the Congress would eliminate those agencies. At a certain point one is given the impression that the extinction of the economic institutes created between 1930 and 1945 was viewed as virtually assured.

The campaign against state intervention agencies was successful with regard to general planning and control organizations like CNPIC, CME, and CADE. As for autarchies, which supervised specific sectors, the only agency eliminated was the one concerned with coffee. Soundly based entrepreneurial interests are likely to have already been built around autarchies. At the Congress, by mid-1946, Horácio Lafer even proposed the creation of an organ to deal with wheat. By the same time the idea was advanced to create a Ministry of Economy that should list among its assignments the job of controlling autarchies. And

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(91) Conferência das Classes Produtoras, Carta Econômica de Teresópolis, op. cit., p. 10.



when the "National Economic Council" became a constitutional requirement it was not long before a charge was voiced that it would serve to expand directionism. By 1947, liberal Dario de Almeida Magalhães voiced his protest — with some exaggeration and using numerous quotations from Von Mises — by saying that "the same huge and heavy machinery, now disjointed and disarticulated but still oppressive and onerous, which had been assembled during the Estado Novo to control and direct the economy" still remained intact.<sup>92</sup>

The Brazilian entrepreneurial class, even outside the industrial sector where several developmentalists were actively working, is little likely to have been radically opposed to governmental intervention. Class entities representing agricultural interests were well aware of their dependence upon state protection, to a point where a significant number of them did not hesitate to give the designation of "Emergency Plan" to the governmental favors they requested and, to a certain extent, received during 1945 and 1946. Coffee-based interests had also become conscious of their dependence in the course of their extensive experience in coping with crises at least since the famous Taubaté Agreement of 1907. Aside from the ideological dispute what is likely to have taken place is a fierce struggle for decision-making power, now determined by divergences among specific interest groups, as was the typical case with autarchies, now by the convergence of wider interests, as had just been the case of CEXIM and the anticipated import permit system. This, however, is not the object of our research. Our pointing it out merely attempts to decipher certain ideological manifestations like, for instance, the intriguing "Word from Commerce" — a letter addressed to the nation in August 1946 by a group of agencies representing the commercial sector which contained the idea that "we do not have any planning, but only opportunism", and proposed to eliminate the existing agencies and create a single organism "to assure a firm and

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(92) Magalhães, D.A., "A crise e suas interpretações", D.E., June 1947, p.25.

fruitful action".<sup>93</sup>

By examining the literature of the period one concludes that the conception of state intervention to support capitalist accumulation had not been defeated. Significantly enough, the journal Digesto Econômico, in its December 1946 issue, proposed to start a wide debate in its subsequent issues under the heading of "Free economy or directed economy?" Had it carried on its intention, which it inexplicably didn't, it would have contributed to reinforce this conclusion. In all those transitional years when liberal messages were outstanding, at any rate for their aggressive tone, there was sound resistance to the idea (expressed, for instance, by UDN leader José Augusto) that "the new conditions created for mankind by its unceasing progress claim for solutions from a democratic state for the newly emerging social and economic problems".<sup>94</sup> This conclusion does not exclude another equally important one, viz., that liberal attacks did succeed in curtailing the interventionist ideology which, though never actually jeopardizing private property, did insinuate itself vigorously during the "Estado Novo". In fact, an ideological campaign reasserting "private initiative's primacy" was rather intensive during that period.

These different aspects were combined into a general principle that may be said to have expressed the average opinion in society, i.e., the principle that private initiative's primacy could not do without supplementary state support and action. This was, in effect, a minimum common denominator among all major collective statements we have referred to and it is clearly expressed in the most liberal one among them, i.e., the Teresópolis Letter, in the chapter devoted to the Economic Order: "For all their faithfulness to their historical origins and to the international policy commitments the Na-

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(93) "A palavra do comércio em face do momento", reprinted in D.E., September 1946, pp. 25-30.

(94) José Augusto, "O Estado na economia", D.E., September 1947, p. 21.

tion has given support to, [the entrepreneurial classes] acknowledge that Brazilian economic order is based upon the principle of freedom and the primacy of private initiative (...). This consideration, however, does not exclude the acknowledgement of a certain level of state interference imposed by an attested need in a limited number of cases, prudently contained within the framework of ample planning for a rational articulation of productive forces and taking the form of an efficient stimulation of economic activities by helping them, facilitating their organization and offering them technical assistance. It shall be incumbent upon the state to provide adequate complimentary action, to be extended to the social field, whenever the necessary undertakings should exceed private initiative's power, capacity or convenience".<sup>95</sup>

We must still consider one final crucial question, i.e., the level of acceptance of the concept of planning. To judge exclusively from the number of times the names of Von Mises and Robbins are quoted in the writings of the time one would say that there prevailed an understanding that "planning is the great panacea of our day", a sentence by Von Mises which Gudín enjoyed quoting. By the end of the "Estado Novo", liberal attacks attempted to associate planning with the dictatorship. In particular, Eugênio Gudín — who was the leader of the liberal movement against planning — identified it with socialism, as we have seen earlier.

This view, however, was far from predominant, at least in terms of what we find in the economic literature of the time. As early as 1944, the authors of the most ambitious planning project discussed in Brazil up to then — that of creating a Central Planning Board at CNPIC — i.e., Marcondes Filho, Roberto Simonsen, Ary Torres, San Thiago Dantas and others, were heedful of the problem represented by that association. One of the project's intellectual mentors, young developmentalist Rômulo de Almeida, in the same pronouncement where he introduced the idea of creating a "Central Planning Board",

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(95) Conferência das Classes Produtoras, Carta Econômica de Teresópolis, op. cit., p. 3.

included a number of references to Mannheim — whom Gudin used to refer to as a "nebulous sociologist"<sup>96</sup> — and to other adepts of the identification between planning and democracy.<sup>97</sup> These quotations became as frequent as those extracted from Von Mises's writings. Even those people from whom one might expect a total rejection of every and any form of state intervention in the economy, such as a director of the São Paulo Commercial Association, seemed to diverge from Gudin. Let us see, for instance, the words of Brasílio Machado Neto in his unsuspected capacity as president of that agency in early 1945:

"In Mannheim's conception 'it is no longer possible nowadays to choose between planning and the old laissez faire. There can only be a choice between good and bad planning'.

Other authors above any suspicion, such as Lipmann, Grove, Nitti, Pirou, and Sampay understand this irrepressible propensity in modern economy and see no incompatibility between this fact and the essence of democratic political organization.

The coexistence of two truths — democracy and planning — is therefore perfectly in keeping and there is nothing in either one's nature to render them incompatible".<sup>98</sup>

We have already referred in considerable detail to several party programs and documents elaborated at congresses gathering economists, entrepreneurs and governmental experts where one finds an openly favorable position toward the planning of economic activities, particularly in those sectors that are essential to industrialization. In this sense we could make one further reference to the developmentalist character of the Engineering and Industry Congress. Although its organizers lacked the ability to co-ordinate the different aspects of national economic planning problems so as to assess them in a unified and comprehensive manner in a discussion about overall planning, the titles given to the nine major topics for discussion distributed among nine

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(96) Gudin, E., "Rumos da política econômica", in A controvérsia..., op.cit., p. 77.

(97) CNPIC, "A planificação da economia nacional", op.cit., pp. 62-70.

(98) Machado Neto, B., "Planificação econômica", D.E., January 1945, p. 41.

different commissions dispense with any further comments: General Planning for the Country, Economic and Financial Planning, Energy Planning, Industrial Planning, Rural Planning, Urban Planning, Transportation and Communications Planning, Planning for Technical and Professional Training, and Labor Planning.<sup>99</sup>

In the liberalizing post-war stage the preservation of the concept of planning was a basic element in developmentalism's ideological resistance. One must not exaggerate the meaning of that resistance, however. After all, regardless of its action, there did occur a suppression or emptying of the existing economic planning agencies. The defense of planning thus acquired an increasingly abstract meaning and became ever more innocuous to liberal objectives. By early 1946, some of liberals' major goals — i.e., the elimination of CADE, CNPIC, and CME (the Economic Planning Council, also extinguished, had never really been a threat to liberals for they held control over it) — had already been attained. The concept of planning continued to convey the sense of a "rational articulation of productive forces", as stated in the Teresópolis Letter, but brought no actual threat of any potentially interventionist projects such as that of CNPIC. The only minor threats were represented by Daniel Faraco's initiatives toward legally regulating the National Economic Council which had been instituted by the Constitution of 1946. Incidentally, the inclusion of that Council in the Magna Carta of 1946 may be viewed as a hope of achieving a golden mean between liberals' radical positions and those taken by CNPIC's component members. Intermediary positions were advocated in many writings of the time, as for instance in the letter addressed to the Congress by the São Paulo Economists' Association, wherein planning and a "moderately interventionist" economic policy were recommended.<sup>100</sup> But the inclusion of the Council in the Constitution did not prevent Faraco's efforts from

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(99) Cf. Mont'Alegre, O., news article about the Second Brazilian Congress of Economy, op.cit., p. 20.

(100) Published in Revista de Ciências Econômicas, the journal of the São Paulo Economists' Association, February 1946 issue. The journal followed a developmentalist orientation after its editor-in-chief, José da Costa Boucinhas.

being largely frustrated, given the success of a sound liberal opposition at the Congress under Tristão de Athaide's leadership. The latter deserved from Faraco an exasperated remark charging him with defending liberalism "at its worst expression, i.e., Manheim's liberalism" and with mistaking it for democracy, even though the policy of laissez faire was responsible "for the misery in which the labor class has been plunged owing to a series of economic crises".<sup>101</sup>

In other words, the concept of planning still persisted, but only as a minor threat. It additionally had an extremely vague meaning that was used in variable senses according to each person and context. Somehow or other, however, it continued to be widely employed, as if conferring a progressive status upon those who referred to it.

In 1946, perhaps because the country was still under the impact of recent institutional changes, the discussion about planning withdrew somewhat into the background as compared to the previous year. In 1947, however, its presence was again markedly felt in the intellectual scene as the lack of a programmatic definition in Dutra's government was gradually confirmed. The Salte Plan, whose drafting was begun in 1947, was an outcome of this entire process and at the same time a connecting link with the planning activities of the 1950s. We shall revert to this point in the coming chapter.

#### iv. Economic thought, "social justice", and income and land distribution

In the abstract acceptance of both the concept of planning and "moderate" state intervention there was something of an acknowledgement of the fragility of the national entrepreneurial class and of national economy itself, clearly vulnerable as it was to any crises in international trade. There was also an acknowledgement of the relative success of interventionist experiences in advanced capitalist countries, especially during the wartime. Planning — even if vaguely defined — began to become compatible with the concept of a capitalist economy in the minds of the members of Brazilian elites, who were

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(101) Quoted in Draibe, S., Rumos e metamorfose..., op.cit., p. 390.

less provincial than they are usually believed to have been and were rather heedful of what was going on in advanced centers.. But this is just one of the reasons that may account for what happened at the ideological level. The other one, which is perhaps more relevant to understand that period's ideological picture, is associated to the basic problem to be solved by the dominant classes in that stage of redemocratization of Brazilian society: the relations between capital and labor.

The period's economic thought was obviously enveloped in the discussion about the new Social Pact that was to follow the overthrow of the dictatorship. From the point of view of conservative classes, the point was to assure a structure of dominance capable of neutralizing the threats to private property, as was to be demonstrated by the events of 1946 and 1947. But the exact way to do that was still unknown, so much so that the Brazilian Communist Party achieved its ephemeral legality.

This is the historical context that accounts for the intensity with which entrepreneurial class leaders and the members of the conservative Congress referred to "social justice" problems. In those references the state featured as a guardian of that justice on behalf of social peace. It must not only promote, with the help of entrepreneurs, an increase in the assistance provided in health and education areas, etc. as well as defend consumers interests, but must also plan the economy so as to assure a more rational use of the country's resources. The two most important documents in this sense are the Teresópolis Letter, specially in its sections headed "Basic Objectives" and "Social Policy", and the Social Peace Letter suggested at the Teresópolis Conference and written some months later under the co-ordination of the President of the National Trade Confederation, João Dauldt de Oliveira. It is worth transcribing the first two paragraphs of this document, which, though it lacked any delegation from workers, spoke also in their name:

"Both employers and employees engaged in the various branches of eco-

conomic activity in Brazil acknowledge that a sound social peace, based upon economic order, must result essentially from an educational work through which men may become fraternal, thereby strengthening their feelings of sympathy and confidence.

In order to accelerate the achievement of that result and as a preliminary measure they acknowledge the need to assure a long period of co-operation within the country, so as to process the development of its productive forces and promote a rise in Brazilians' standard of living; and for this purpose it is indispensable to promote an increase in national income and its better and wider distribution, with a better use of the country's resources, all of which may be attained by the enforcement of a comprehensive and objective economic planning under the terms of the Teresópolis Letter".<sup>102</sup>

The unanimous concern of Brazilian entrepreneurs was to be reflected in the opening article of the section dealing with the "Economic and Social Order" in the Constitution of 1946, similarly to that of 1934: "economic order must be organized in accordance with the principles of social justice, reconciling freedom of initiative with the valorization of human labor".<sup>103</sup> The constitutional text still did not outline the political limits of the promotion of such valorization. The Constitution referred to minimum wages, the right of enjoying vacations, the remuneration of underage workers, and a number of additional labor rights to which entrepreneurial leaders had already granted their generic approval in the earlier quoted documents. It also asserted its recognition of "the right of strike, to be regulated by law", as well as of labor unions' freedom, to be equally regulated by law. To discern those limits one must peruse the legislation herein referred to, where one will find a strict definition of what is meant by legal strikes and the maintenance of the unionist structure contained in Vargas's labor laws, which rendered workers' mobilization virtually unfeasible outside the strict regional frontiers inherent to each professional category.

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(102) Carta da Paz Social, reprinted in OEF, January 1946, pp. 1-16.

(103) Brazilian Constitution of 1946, Article 145.



The valorization of labor must be achieved under the "tutelage" and "protection" of both the entrepreneurial class and the state. Vargas himself had already tried to portray himself as the living incarnation of the protective state. He left the country's topmost office with the nickname of "Father of the Poor", which the dictator's propaganda had successfully helped diffuse on the strength of the labor laws introduced during the "Estado Novo". This ideology may have had something to do with the title of "war against pauperism" given by Roberto Simonsen and Vargas's Labor Minister Marcondes Filho to the planning project they intended to implement through the CNPIC. That expression was changed into "combat to pauperism" in the Teresópolis Letter, wherein that "combat" was equally associated to the idea of planning, yet presented in an abstract and undefined form, as was convenient to most of the conference's attendants. It was almost as if, at the level of intentions, one aimed to move toward a welfare state of the type depicted in the news received from Laski's England, but without running the risks of advanced European democracies.

One risk in particular was becoming evident to the attentive conservatives of the time: that of land expropriation. They even went as far as to admit to some income redistribution, as can be gathered from the passage of the Social Peace Letter quoted above, although the only actual formula they presented in that text was the creation of a Social Fund made up of resources in the form of contributions deriving from entrepreneurial profits. The Constitution actually stipulated — in consonance with the ideas advocated in the programs of several of the new political parties — a "mandatory and direct participation of laborers in company profits under the terms of and in the form stipulated by law".<sup>104</sup> And though the income redistribution entrepreneurial leaders seemed willing to promote did not include the channel of wages, with

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(104) Brazilian Constitution of 1946, Article 157. Incidentally, this law was largely discussed but was never put to the vote as long as this Constitution was in force.

any reduction in their own profitability, they did acknowledge the legitimacy of stipulating a "minimum vital wage" in their collective documents. Let it be said in passing that this was probably forgotten in their individual behavior repudiating the many strikes that broke up in protest against the correction of "vital wages" by inflation indices. When collectively gathered, however, entrepreneurs even justified the redistributionist view with the argumentation of strengthening the domestic market:

"Not only out of social sympathy but also for economic conveniences there must be as fast an increase as possible in the population's purchasing power, specially that of rural populations, with a view to increasing the country's prosperity and strengthening the domestic consumers market".<sup>105</sup>

The argumentation about the domestic market was also widely employed by socialists to justify the need of a land redistribution. In their general conception about the Brazilian stage of economic and social development as widely broadcast by the Communist Party's active and lively propaganda, i.e., the conception of a democratic-bourgeois, anti-feudal and anti-imperialistic stage, the connection between the domestic market, capitalist development and the land reform was clearly expressed. Let us see, for example, how Luís Carlos Prestes addressed his audience at a public political gathering in the city of Recife in November 1945:

"... it is an illusion to think of industrialization in Brazil as long as the domestic market does not achieve a considerable growth (...) Fellow citizens! The problem we have here is one of promoting a considerable expansion of the domestic market in our country. But how are we to expand it, to make that market any larger? By means of an upgrading of the standard of living of the large masses. Yet, if 70% of our population live in the countryside, we must begin precisely by raising the standard of living of the large rural masses (...) Comrades! A rise in the standard of living of the large peasant masses

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(105) Carta da Paz Social, op.cit., p. 15.

is of interest to all Brazilians, capitalists as well as city workers. To capitalists, because they cannot invest money in machines to see them remain idle (...) Fellow citizens! The rise in the standard of living of large rural masses is possible only through the elimination of land monopoly, and land in Brazil is in the hands of a privileged minority. This minority explores the land through backward processes that are the most routinely of all, if not leaving it abandoned even in the very outskirts of large consumption centers that already count on means of transportation (...)"<sup>106</sup>

Following the above passage and still in the same speech there came the Party's real message in that post-war redemocratization conjuncture:

"The Brazilian Communist Party, in its minimum program for National Union — a program to be defended by its House Representatives and Senators at the forthcoming Constituent Assembly — states that usable pieces of land close to large cities or consumption centers with already available transportation means, should they continue to be explored by those routinely processes or remain abandoned, must go into the hands of the state to be freely distributed to the large peasant masses" (bravo! cheers!)

"Comrades! This is the number one problem in our economy and in Brazilian progress. This problem of the democratic-bourgeois revolution, this problem that calls for a solution is now demanding the union of all of our people (bravo!), of all workers and employers, all peasants and progressive farmers, all those who really love Brazil, those who want progress for our homeland, those who want a better future for our children".<sup>107</sup>

The adherents to rural expropriation must not have come across too many "progressive farmers", or even many urban entrepreneurs willing to support the suggested minimum program. The documents issued by entrepreneurial leaders in 1945 make no reference to this question. The land reform they contemplated, as shown in some texts regarding the "Emergency Plan", was chiefly concerned with credit support to the existing farming and with improvements in the trans-

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(106) Passage from a speech reprinted in Vinhas, M., O Partidão, op.cit., pp. 113-115.

(107) Idem, p. 115.

portation, storage and minimum price policy systems. It also included investments in health and education for the rural population, as well as technical assistance for agriculture. But by no means were entrepreneurs willing to relinquish the existing landed property structure. Also, they emptied any proposals for the extension of Vargas's labor legislation to the countryside by claiming, for instance, that "the state must, in promulgating labor laws, attend to the contingencies of the economic stage of the regions covered under the scope of those laws", for which purpose "it shall provide the most accurate studies about rural areas and the development of labor in agricultural properties".<sup>108</sup>

No economic arguments were wanting in other writings to condemn the idea of a land reform through the fractioning of land properties. A short but expressive article by the editorial department of Digesto Econômico, the journal edited by the São Paulo Commercial Association, after drawing attention to the "shrewdness" of communist propaganda — which was said to consist, "in the first place, of throwing the industry against farm workers" so as later to abolish private property altogether — stated that:

"In view of the advantages of mechanization we would thus have to opt for large properties, or at least for average-sized properties, without which the progress of Brazilian agriculture would be delayed, otherwise small farmers would find themselves in a real state of economic strangulation with product processing remaining beyond their reach".<sup>109</sup>

In the economic and social literature of the time there were no serious attempts to go deep into the question of the Brazilian land reform. The permanently difficult discussion of the economic efficiency of redistributing landed property tended to convey (as is so often the case with such discussions)

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(108) Carta Econômica de Teresópolis, op.cit., p. 15.

(109) D.E., December 1945, p. 50.

rather the political stand taken by different authors than a firm belief resulting from an in-depth analysis of Brazilian rural reality. This intellectual context contributed for the term "agrarian reform" to have widely differing connotations and to be incorporated even into conservative language, duly emptied of its redistributionist meaning. The best information then available in compact form to serve as a source of reference to all were the strongly aggregated figures from the census of 1940. In those figures one could find justification for the low productivity of both latifundia and minifundia, thus undermining the generic proposal for a fractioning of the land as recommended, for instance, in UDN's program — a recommendation which, by the way, was totally disregarded from the beginning by the vast majority of that party's members. UDN House Representative Nestor Duarte was one of the few to take it seriously, having submitted to the Congress a frustrated project that reserved one-fourth of the area of large properties for subsistence farming in those regions where the land was most appropriate for such crops.<sup>110</sup> Afrânio de Carvalho, another UDN member who engaged in discussions about this topic at that time, in the introduction to his hardly objective preliminary project for an agrarian law submitted to the Congress also in 1947,<sup>111</sup> pointed to a crucial difficulty in legislating about the landed property structure in Brazil, i.e., the practical unfeasibility of proposing a wide land redistribution in view of Article 141, § 16 of the Constitution. The wording of that article demanded from the state an altogether unattainable financial capacity to comply with any such proposals: "The right of property is hereby guaranteed, except in the event of expropriations determined by either public necessity or utility, or by social interests, through the payment of fair anticipated cash indemnifications". Seventeen years went by before a project was first put to the vote

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(110) The preliminary plan appears in Ministério da Agricultura, Reforma Agrária no Mundo e no Brasil, Rio de Janeiro, Ministério da Agricultura, Série Estudos e Ensaios no. 4, 1952, pp. 335-343.

(111) Idem, pp. 293-335.

at the Congress to rewrite that passage of the Constitution. The vote was largely unfavourable, as was to be expected from a Congress that was permanently conservative with regard to land expropriation matters.

The debate about the land reform, despite the superficiality originating in the relative unawareness of the variegated and complex background of social production relations in the wide and diversified Brazilian territory, contributed to leave an important mark in Brazilian economic thought, i.e., the idea that low productivity in the countryside, where the larger part of the country's population was still to be found, determined a restricted domestic market and thus represented a basic obstacle to the country's economic development. This is a recurring view in several different analyses. For over a decade the land reform issue was deprived of the "thematic unity" characteristic that was assigned to it by the historical conjuncture of 1945 and 1947, and later on by that of the early 1960s. In both conjunctures there were hopes of securing basic reforms that might at once enhance "social justice" and the conditions to make economic development feasible. For this reason, albeit included in the economic analyses of the intermediary period, the land reform played a merely accessory role in them. It is no exaggeration to state that for a long while the last major developmentalist text to give any prominence to this topic was Américo Barbosa de Oliveira's 1946 book Desenvolvimento Planificado da Economia Brasileira, where the author favored the criterion of technical rigor in land redistribution, opposed an excessive and indiscriminate land fractioning and stated: "The dilemma now facing contemporary urban-oriented Brazil (...) lies in either improving rural economy, and thereby expanding the domestic market, or stagnating and regressing".<sup>112</sup> Had Barbosa de Oliveira written this book some years later within a different political situation, he might have considered it unadvisable to state that "this is the topmost task to be

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(112) Barbosa de Oliveira, A., Desenvolvimento planificado..., op.cit., p. 53.

planned in our days".<sup>113</sup>

#### v. Inflation and foreign trade

The economic and political conjuncture of the transitional phase set up a favorable stage for both the discussion of basic structural questions, which we have reviewed in the preceding sections, and for the examination of "permanent" conjunctural questions — or equally structural ones, according to ECLA's later interpretation — like inflation and the balance of payments. A few years of unprecedented inflation in the country and marked superavits in the balance of payments, along with the special international economic situation, drew the attention of economic analysts to these topics.

It fell to liberal, or rather neo-liberal author Eugênio Gudin to make the most comprehensive analysis of Brazilian conditions in the final wartime years. His Ensaio sobre Problemas Econômicos da Atualidade, published in 1945, is a collection of the various texts that best represent his interpretation, written between 1942 and 1944. Since this was the most largely influential interpretation in the conjunctural analyses of the time, its major points are worth summarizing:

1) Brazilian economy was said to be in a situation of full employment: "Our current situation is one of hyper-full employment".<sup>114</sup> The problem of inflationary pressures upon Brazil's productive capacity was a serious one. It was claimed to be much worse, for instance, than in the U.S.A. or England, first because Brazil had to expand its exports to supply allied countries, while at the same time seeking to manufacture internally those commodities it could no longer import in view of the war (which was not the case with the other two countries), and secondly because:

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(113) Barbosa de Oliveira, A., Desenvolvimento planejado..., op.cit., p.53.

(114) Gudin, E., Ensaio sobre problemas..., op.cit., p. 114.

"There is still another difference. In those countries, upon the outbreak of the war, there was a large availability of unused productive factors: plants operating considerably below their capacity, widespread unemployment, and no generalized tendency toward price rises. In our case, precisely the opposite is true. The advent of the war coincides with a situation of high economic activity, no unemployment, and a marked rise in prices. In this aspect, therefore, our situation is far more serious than that of our allies".<sup>115</sup>

2) Those objective conditions were said to render domestic prices vulnerable to the two major inflationary factors in that period: the monetary counterpart of balance of payment surpluses and public deficits.

3) For the purpose of controlling the former cause Gudín recommended freezing the balance by issuing "Special Bonds" for voluntary or mandatory placement. He suggested some alternatives for mandatory acquisition of those bonds and emphasized the need to channel to this objective a portion of the extraordinary profits accrued as a consequence of the special war situation.<sup>116</sup>

4) In regard to public deficits Gudín made two recommendations: first, that there be a separate budget (other than the regular one) to cover war-related expenses. Concerning these, he supported a mandatory subscription of "War Bonds" by wage-earning workers above a certain minimum wage level, as well as an additional tax on company profits and on the earnings of individuals in the high income brackets. As for the regular budget, he recommended in the first place the issue of Treasury Bonds to be kept in the monetary market with no rediscount possibilities. Secondly, he strongly recommended a dramatic reduc-

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(115) Gudín, E., Ensaíos sobre problemas..., op.cit., p. 55.

(116) Decree-law no. 6224 of 1/22/1944, which stipulated the payment of an additional income tax on extraordinary profits and which obtained approval largely owing to Gudín's influence, determined a solution along the same lines, even though its form was somewhat different: it exempted from the extra tax those companies that applied twice the value of the income tax payable in the purchase of "Equipment Certificates" to cover equipment imports after the end of the war.



tion in state investments. In his opinion there was a profound disequilibrium in Brazilian economy between the demand and supply of consumption goods, its cause being the excessive investments which drained productive resources from the sectors responsible for the current consumption goods. This excess was not due to private investments, whose expansion was said to be normal, but rather to state investments:

"It is in the sector of state investments that one finds considerable activity. Besides the military works undertaken by the Brazilian and American governments, which are indispensable to the course of the war, innumerable and expensive are state undertakings in every region of the country: new railways and highways in several states, major layout remodellings at the Central Railway Co., the Volta Redonda Steel Mill, the Vale do Rio Doce Co., the Macabu and Baixada powerplants, the Rubber Program, the railway to Bolivia, palaces to accommodate Ministries and mixed-capital companies, avenues, etc.

Add to these the labor shortage caused by both the military draft and the need to attend to emergency production for the substitution of normally imported goods, including charcoal and firewood, and the really striking thing is that there should still be any labor left to produce corn, rice, black beans, milk, etc."<sup>117</sup>

5) Gudín further criticized the lack of control over cotton production for export purposes, which he viewed as robbing food production agriculture of its "meager productive factors". He regretted that the resources from welfare institutes were applied to non-priority activities in urban civil construction, attracted as they were by a speculation that was nurtured by inflation itself, and recommended that they be channelled to the subscription of Treasury Bonds.

Another idea was later added to Gudín's interpretation, i.e., that the third basic cause accounting for inflation was the excessive bank credit expansion. In this discussion the most prominent economist was Gudín's neo-liberal co-worker Octávio Gouveia de Bulhões, founder and first head of the Money and Credit Superintendence created in 1945. The complete interpretation was

clearly reflected in a study elaborated by Bulhões and one of his workmates at the Getúlio Vargas Foundation, econometrist Jorge Kingston, concerning the factors accounting for inflation in the period 1942-1946. This work appeared in the first issue of Revista Brasileira de Economia in 1947. The authors distinguished three different subperiods (1942-1943, 1943-1945, and 1945-1946) and concluded that the relative importance of each factor had varied, there standing out among them, always by a wide margin, the surplus in the balance of payments during the first subperiod, credit expansion during the second one, and state deficits in the last of them.<sup>118</sup>

Among the specific paths followed in the post-war period by the debates about economic problems, the common denominator among which was the uninterrupted discussion about inflation, the most interesting one was perhaps the course taken by the discussions concerning Brazilian foreign trade. Generally speaking, in the analyses about this subject up to 1946 a swift reversion seemed to be expected in the general picture of Brazilian foreign trade, which should go initially through a pronounced trade deficit before achieving greater normalization. To a certain extent, one counted even on the possibility of deflation. For example, the text of the First Brazilian Congress of Economy, in recommending (as per Gudin's suggestion) a reduction in the excessive means of payment generated by commercial superavits through the placement of bonds linked to equipment imports in post-war times, added that "upon making the huge imports that will be indispensable in the post-war period (...) one must put a stop to inflation, but without practicing deflation".<sup>119</sup> Incidentally, we should note at this point that there was a widespread opposition to deflationary policies in Brazil. As we have seen, Gudin's analysis about the consequences of deflation was a Keynesian one. By late 1945 and

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(117) Gudin, E., Ensaio sobre problemas..., op.cit., pp. 25-30.

(118) Bulhões, O.G. and Kingston, J., "Política monetária para 1947", RBE, no. 1, September 1947.

(119) "Anais do I Congresso Brasileiro de Economia", op.cit., p. 33.

early 1946, however, upon the enforcement of the import liberalizing measures formerly recommended in the Teresópolis Letter and heartily welcomed by liberals, economists at large already viewed the fear of deflation as unwarranted as prices continued to rise steadily.

Up to late 1946 we find several texts expressing the expectation of a swift normalization of Brazilian international trade, such as, for example, a speech made by the President of the National Trade Confederation late that year, in which he stated with liberal optimism that "freedom of trade will stimulate production and restore price equilibrium via competition".<sup>120</sup>

In 1947, however, there was a reversion of those expectations owing to three "surprises". First, the data on Brazilian foreign trade relating to 1946 showed that there had again been a superavit in the balance of payments and that it had caused an intensification of the pressures of the former two years toward a rigid control over exports. One of the measures suggested in Bulhões and Kingston's study was to break up exports into two groups --- that of traditional exports and that of goods that had only been exported owing to wartime conditions --- and thus lower internal consumption and force a rise in prices. Regarding the latter exports, the authors recommended that they be permitted "only after the occurrence of a price reduction".<sup>121</sup>

If viewed separately, however, the trade balance data for 1946 could have caused no more than a temporary uncertainty regarding the normalization of international trade in the post-war period, as 1947 showed a slight overall deficit and the two subsequent years showed a slight superavit. The real news was to come in the form of the second and third of the series of "surprises" that were in store for those analyzing Brazilian economy in 1947. The more striking of the two was doubtlessly the news broadcast in June to the effect

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(120) Passage quoted from a speech reprinted in O Economista, November 1946.

(121) Bulhões, O.G. and Kingston, J., "Política monetária...", op.cit., p.

that the reserves in convertible currency accumulated during the war had been exhausted. CEXIM's memorandum to the Finance Ministry, published in the press, contained the following outraged remarks about the expenditure of those credits, which was said to have been effected as follows:

"Part of it, of course, in the purchase of equipment and tools, means of transportation and other goods of unquestionable usefulness, and part in the acquisition of sumptuary or perfectly non-essential commodities during a critical emergency as the one we are now going through.

This latter part, which was so poorly applied, must have been rather considerable, for obviously the tradesman seeking huge and immediate profits does not care to order from abroad any equipment that may somehow bring any improvements to our industrial apparatus; what serves his interests best is to import superfluous goods for which he is sure to find a guaranteed clientele in the affluent classes willing to pay high prices. He is alternatively interested in importing knick-knacks and fashionable items that exercise an irresistible fascination, specially over the more modest strata of the population, which as a rule, in order to obtain them through the widely advertised system of 'installment payments', undertake to pay financial charges that bind and sacrifice the better part of their meager wages for months on end".<sup>122</sup>

One of the consequences of the foregoing official statement was the opposition's widespread use of the argumentation that the liberalism of governmental economic policies had led to a waste of the foreign credits accumulated during the war. We know now that this was not exactly so even in regard to convertible currencies under governmental control, as the percentage of imports corresponding to consumption goods was much lower than criticisms would seem to imply.<sup>123</sup> At that time, however, the terms of the statement and the lack of well-researched data determined that, for a long while and regardless of any statements to the contrary — such as the one included in Bank of Bra-

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(122) This and other passages of the memorandum are reprinted in OEF, July 1947, pp. 5-6.

(123) See Malan et al., Política econômica..., op.cit.

zil's Annual Report for 1947 —, the liberal policies of 1946-1947 were symbolically associated to "purchases of yo-yos" from the United States.

A few weeks later came the third surprise that was to close the cycle of events which diffused perplexity in Brazil regarding the normalization of international trade, centering around the debate about the "dollar shortage" phenomenon: the news that England, Brazil's major debtor, had turned the sterling pound into an inconvertible currency. In October 1947, in the city of Petrópolis, RJ, the dollar shortage (or the continuous superavits in the American balance of payments) and the Marshall Plan were the major topics of the XXVI Interamerican Trade Council Meeting. At that opportunity an indefatigable Simonsen praised the basic philosophy of the Marshall Plan, but at the same time voiced an emphatic defense of Latin American countries. He protested against the non-existence of an international plan "that may also cater to the interests of economically underdeveloped nations" and, in particular, against what he called "the Marshall Plan's unilaterality", which favored European countries alone.<sup>124</sup>

Simonsen also claimed for equality in the terms granted to Europeans and Brazilians in the purchase of production goods from the U.S.A. and Canada. He further objected to the financing of Europeans by means of commercial superavits:

"Our international trade must operate on a triangular basis: we shall sell more to Europe than we can buy from them and buy more from the U.S.A. than we can sell them. Any intensification of commercial routes must be conducted on those grounds so that Americans may finance our exports to Europe, thereby enabling us to increase our purchases from their country".<sup>125</sup>

Brazilian economists found out at last that they were being victimized by a "dollar shortage". Meanwhile, in a visit to Brazil, Haberler argued that

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(124) See Simonsen, R., "O Plano Marshall", O Economista, October 1947, p.23.

(125) Idem, p. 21.

the dollar shortage could only be a temporary phenomenon as it was devoid of any theoretical grounds to account for it in normal periods. Haberler further stated that its cause was the abnormal European inflationary situation resulting from the war, and that the "general conclusion is that the classical inflation theory about dollar shortages is essentially correct".<sup>126</sup> In both his opinion and that of his host, Eugênio Gudin, when once a gradual normalization were achieved there would prevail the Bretton Woods expectation that the exchange rate devaluation mechanism, if duly activated, would be an adequate substitute for the classical mechanism linked to the gold standard in the promotion of equilibrium in international trade.<sup>127</sup>

This point refers us to a major reversion in the history of economic policies in the 1940s, i.e., to the reinstatement of the anticipated import permit system for imports, which had been virtually abolished, with great enthusiasm on the part of liberals, during Pires do Rio's provisional administration in late 1945. We must initially point out that Brazilian economists in general, and even the more liberal ones, viewed the monetary equilibrium policy as having higher priority than the equilibrium in the balance of payments. Gudin, for example, in consonance with his view that the basic cause for foreign disequilibrium was inflation, felt that exchange rate devaluations would be an adequate general measure only when inflation were already under control.

In view of the dollar shortage faced by the country, liberals agreed to a provisional quantitative control over imports, combined with the maintenance of the exchange rate at the fixed post-war level of Cr\$18.00/dollar.

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(126) von Haberler, G., "Balança de pagamentos em regime de papel-moeda", D.E., November 1947, p. 93.

(127) Contrary to what might be presumed and as shown in our chapter dealing with Gudin's thought, the latter did not believe in Cassel's theory of the purchasing power parity as an adequate instrument for calculating the devaluations required. Yet, he regarded it as a necessary approximation to a theoretical understanding of how the relative values of different currencies were established at the international level. In the first issue of RBE we find an article by Jorge Kafuri, a member of FVG's

Gudin, in particular, was always mindful of the danger of feeding inflation via exchange rate devaluations and was even more watchful of the risk that the latter might result in a deterioration in the terms of trade in a country specializing in primary product exports, as was the case with Brazil. In co-operation with Bulhões, Gudín had only recently submitted a proposal in Bretton Woods to the effect that, "in order to better collimate the goals of the International Monetary Fund and the Reconstruction and Development Bank, a conference of the United Nations and other Associate countries should be convened to present recommendations designed to promote price stability for raw materials and agricultural products, thereby contributing to a greater development of international trade".<sup>128</sup> In a conference at the São Paulo Commercial Association, Haberler made two qualifications with regard to the measure he deemed most appropriate. First, "that it is necessary to introduce the concept of demand elasticity as regards exports, given that there may be cases where the latter act contrarily to one's expectations in terms of monetary devaluations. In the Brazilian case, for instance, perhaps owing to the coffee situation, monetary devaluations may yield results that go against the existing expectations".<sup>129</sup> Second, he stated that "money cannot be devaluated at just any time (...) In the event of deflation, for instance, there is little use for the strategy of devaluation in that the excessive circulating currency is always a symptom of deeper causes, and under such circumstances one should fight the causes and not their effects".<sup>130</sup> Thus, the very leaders of free-

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Economic Division, wherein this author discusses the various definitions of parity given by Cassel, Divisor and Roy, thus denoting the academic interest roused by this subject among the economists who worked at that agency under Gudín's leadership. In fact, that was a time when Gudín himself devoted some attention to the study of this question. See, for instance, his article "O valor do cruzeiro", D.E., January 1947, pp. 22-32.

(128) Reprinted in Gudín, E., Ensaio sobre problemas..., op.cit., p. 235.

(129) von Haberler, G., "Balança de pagamentos...", op.cit., p. 33.

(130) Ibid.

trade thinking were the ones to legitimize the interventionist measures that were paradoxically adopted in those golden years of liberal economic policies in Brazil. They were willing to accept those measures until "normality" were reinstated in international trade and until inflation had been curbed in the domestic area. Oddly enough, the only one among the country's most outstanding economists to advocate exchange rate devaluations at that point was Roberto Simonsen. Until 1946 he had emphasized the increase in tariffs as preferable to devaluations. Then, probably owing to Brazil's involvement in the London and Geneva Conferences concerning the GATT, which rendered tariff negotiations more time-consuming, he began to propose exchange rate devaluations by 1947, recommending that the dollar rate be raised to Cr\$40.00/dollar.<sup>131</sup>

Let us finally describe the discussion about the two other points indicated as causes of inflation at that time. One of them was credit control. As might be expected, both in Brazil as in other countries this subject gave rise to recurring discussions between governmental economic authorities concerned with the control of inflation, on the one hand, and entrepreneurs, on the other. The Teresópolis Conference had already conveyed the stand taken by national entrepreneurs with respect to inflation control: "It is an acknowledged principle of the entrepreneurial class that monetary policies must be subordinate to general economic policies that enhance productive activities and to the expansion of national capital".<sup>132</sup> The argumentation in question, which was used both in 1946/1947 and in the different stabilization programs for the entire period covered by our study, was that the one real solution to inflation is production increase. It must be noted that this bears only an apparent resemblance to ECLA's argumentation, as the latter considers that inflation can be permanently checked only in the long run via investments that clear up the economic system's bottlenecks, whereas the argumentation present-

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(131) Cf. Revista Bancária Brasileira, June 1947, section "O que diz a imprensa".

(132) Carta Econômica de Teresópolis, op.cit., p. 12.



ed by the entrepreneurial class was formulated in regard to current production and short-term credit.

The years 1944-1945 witnessed a pronounced credit expansion, particularly for agriculture. Incidentally, a formal acceptance was observed among the economists attending the First Brazilian Congress of Economy with regard to the "selective credit" proposal advanced by Bulhões, which had already appeared in his book published in 1941.<sup>133</sup> The text conveying the Congress' resolutions reads: "There being no uniform input of means of payment into the economy's different sectors, a diversification is required in credit control. Besides a quantitative control over credit, a qualitative control imposes itself so as to better attend to the conjunctural diversity of the various economic sectors".<sup>134</sup> The subsequent year witnessed a more or less strict credit control. Already in the second semester of 1946 a failure was pointed out in the fight against inflation and economists began to realize the difficulty of avoiding an external surplus. The term "crisis" went into frequent usage regardless of the extraordinary real product expansion then observed. In a document titled "A word from commerce regarding the crisis", the agencies representing the commercial class stated that "Brazil is now going through one of the most distressing periods in its history". They further asserted that there was insufficient support and stimulation to the production of essential goods and claimed for the promised "selective credit". João di Pietro, President of the Economic Institute of the São Paulo Commercial Association, in an article titled "Price control and its failure in Brazil", recommended a course of action that became a yardstick for measuring liberals' disbelief in the possibility of slackening the special controls that had been admitted of only during the exceptional wartime period: a reinforcement of price freezes.<sup>135</sup>

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(133) Bulhões, O.G., Orientação e controle em economia, Rio de Janeiro, Bedeschi, 1941. Gudín later abandoned this idea, following some criticisms made by Jacob Viner and other economists.

(134) "Anais do I Congresso Brasileiro de Economia", op.cit., p. 34.

(135) Di Pietro, J., "O controle de preços e o fracasso no Brasil", D.E., December 1946, pp. 49-52.

This recommendation was not followed, but the persistence of inflation in 1946 entailed the maintenance, in 1947, of credit restriction policies and policies for controlling the fiscal deficit, which had been huge in 1946. Governmental authorities also relied on the legitimacy bestowed upon them by society's prevailing view that the fight against inflation was one of the priorities of the time, a view that was enthusiastically shared even by the Brazilian Communist Party.

In fact, only that peculiarly unique conjuncture could have rendered it feasible (as was to happen again nearly twenty years later) to enforce such strict credit controls as were introduced in those years. To be on the safe side, the men who were responsible for such controls in 1946 and 1947, upon delivering their anti-inflationary speeches, used to combine energy with a number of qualifications that stemmed from the pressures they received from entrepreneurs. They used the slogan of fighting inflation "without discouraging production", as well as the "selective credit" argumentation. We note, for instance, how São Paulo banker Gastão Vidigal, in his capacity as Finance Minister during the first nine months of Dutra's government, was careful to attenuate his inflation-fighting speeches by referring to the need to develop the economy and support industrial and commercial activities. Even austere Minister Correia e Castro, who replaced Vidigal in October 1946, declared his three priorities to be the fight against inflation, the tax reform, and the encouragement of production. Among the most important governmental documents of the period those showing the smaller number of conciliatory concerns are probably Bank of Brazil's Annual Reports covering 1945, 1946, and 1947. The Bank's President, Manoel Guilherme da Silveira Filho, who was the virtual commander of Brazilian anti-inflationary policies, included lengthy and aggressive anti-inflationary messages in the introduction to those reports and used ironic arguments to fight the pressures put upon him, as in stating that his opponents and critics — "inflationists", as he used to call them — believed

in "the idolatry of credit".<sup>136</sup>

The first semester of 1947 brought a real economic crisis and general dissatisfaction. In the throes of that crisis, Senator Getúlio Vargas returned from his retreat in the state of Rio Grande do Sul and, in a speech addressed to the Senate in April 1947, summarized the criticisms of the time in the following expressive statement: "to render the country's entire economy dependent upon a rigid monetary system means to subordinate the whole to a part".<sup>137</sup> His speech generated a heated controversy and the government's defense was conducted by Senators Ivo D'Aquino and Vitorino Freire, who blamed the prevailing hardships on the economic policies adopted during Vargas's presidential term.

According to the economic analyses of the entire period, the major cause of inflation was unanimously said to lie in public deficits. This, of course, is always the typical argumentation of the entrepreneurial class and also the one that suits it best, if only where its short-term interests are concerned. By the end of the war, the most emphatic argumentation found in economic literature was that public expenditures must be curtailed. As a candidate, Dutra promised to do just that:

"When once war operations are over, we must curtail military expenditures, protract the beginning of new works and slow down the pace of those that have already been initiated whenever their completion should fail to have immediate effects upon cost-of-living reductions, until we are able to restore equilibrium to public finances and stop any new currency issues".<sup>138</sup>

From the liberal perspective — as we have seen, for instance, in Gudin's words quoted in the foregoing pages — that curtailment of expenses would

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(136) Banco do Brasil, Relatórios Anuais de 1945, 1946, 1947, introductory sections.

(137) Speech reprinted in OEF, March 1947.

(138) Quoted in Bank of Brazil's Annual Report for 1945, p. 61. It must be noted that this opinion is found in countless writings of that period, including the Carta Econômica de Teresópolis in its section headed "Política Econômica e Bancária".

bring the twofold benefit of checking both the expansion of public sector investments in directly productive activities and inflation itself. From the entrepreneurial point of view, it meant first and foremost a relief from the threatening prospect of tax raises. By 1946, however, the deficit in the public budget was to reach an unprecedented level, shaken as it was by an unforecast raise in the wages of civil and military public servants. The major proposal submitted to the Congress by governmental authorities during that year had a progressive orientation: it consisted of raising taxes. This proposal, as we have seen, was closely bombarded and defeated. In 1947, a first survival was attained, to the detriment of governmental activities, along the lines of the conservative economic policies that were to characterize the remainder of Dutra's government. In the forthcoming pages we shall turn our attention to these final years and to the first two years of Vargas's second presidential term.

## 2.2. Economic Thought and the Maturation of Developmentalism: 1948/1952

### i. Introduction

The Brazilian economic and political conjuncture of the post-war transition was one of those historical periods which, by virtue of their specificity and richness, demand a separate analysis by researchers. It is no wonder, therefore, that Brazilian historiography should exhibit a significant concentration of research studies about those years while relegating the early and closing years of the decade of 1940 to a secondary level. Also in terms of the evolution of economic thought those were fruitful years, as we have seen: a widespread public debate was then started in Brazilian society concerning all major issues connected with its economic development. The period was a "doctrinary" one par excellence and in it economic liberalism, nurtured by the expectations of normalization of international trade, discussed those questions in a winnerless dispute with the new developmentalist ideology, in

search for an ideological dominance in the orientation to be imprinted upon the "Brazilian economic order".

To judge from its economic literature the period 1944-1947 may be viewed as a "turning point" in the evolution of developmentalism, i.e., that of the beginning of its maturation. To resist and counterattack the liberal threats to the ideology of planned industrialization, formulated until then in a diffused and unco-ordinated way, developmentalism began to achieve greater consistence and to spread throughout the country. This maturation was to proceed rapidly up to the mid-1950s.

The other years ranging from the end of the political rearrangements of the immediate post-war period up to the time when, after Kubitschek's election, a boom phase had its beginning in developmentalist ideology may be subdivided according to distinct criteria. For political historians, whenever their analyses go beyond the phase of 1945-1947, the traditional option consists of considering three distinct periods, viz., the years 1946-1950 (Dutra's government), the years 1951-1954 (Vargas's second government), and the years 1954-1955 (Café Filho's presidential term combined with the provisional solutions following his leave). Among historiographers of economic policies we find two basic alternatives. There are those who, like Carlos Lessa, are concerned with stressing the difference between Vargas's developmentalist policies and Dutra's liberal orientation, and who adopt the same periodization as political historiographers.<sup>1</sup> And there are those who privilege foreign economic policies and, while not disclaiming the validity of the point stressed by Lessa, prefer to emphasize the continuity observed in exchange rate policies (anticipated import permits and fixed exchange rate) between 1947 and 1952, thanks to which perspective the major historical landmark of the period becomes the introduction of a free exchange rate market for capital, with the

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(1) Lessa, C., Quinze anos de política econômica, São Paulo, Brasiliense, 1975.

subsequent introduction of the policy of multiple exchange rates (February and October 1953, respectively).<sup>2</sup>

From the viewpoint of the evolution of economic thought as dealt with by us (with an emphasis on the maturation of developmentalism), it would not be improper to take the beginning of Vargas's government as a historical landmark, inasmuch as the reinsertion of developmentalism into the state apparatus, occurring as it did, represented a decisive advance in the consolidation and diffusion of the concepts of integral and planned industrialization. However, we have chosen to give the years 1948/1952 a joint treatment, which appears to be a more adequate way to account for that evolution for the following reasons:

a) The period 1948/1952 had an important common denominator in the concern about "economic reequipment", an expression used since the final war-time years to designate the need for a wide replacement of the means of production in Brazilian economy. The interest in this question was important for the maturation of developmentalism in that it naturally led to a reflexion about the problems of economic planning and industrialization. This issue began to be discussed in greater depth after the 1947 frustration of the expectations that the reserves accumulated during the war could be used in equipment imports. The progress of this debate was associated to criticisms against the abandonment of Latin America by the Marshall Plan and against the negotiations with the U.S.A. for the obtention of special treatment in exchange for an unconditional political alignment, as well as to the growing fear of the outbreak of a third world war, which, as the opinion went, would catch Brazilian economy unprepared. The final outcome of this process came, on the one hand, in the form of massive imports in 1951-1952 and the creation of both the Joint Brazil-USA Commission and the BNDE; and on the other, it came with the election of President Eisenhower, which clearly put an end to any hopes of ob-

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(2) See Malan, P. et al., Política externa e industrialização no Brasil, op. cit.

taining large scale support from the U.S.A. for basic investments in Brazil.

b) A second common point in those years was the economic thought regarding Brazilian exchange rate policies. This story begins in 1947 with the reversion of any expectations about a normalization of international trade mechanisms (non-convertibility of the sterling pound, multiplication of bilateral agreements, etc.), and extends at least up to 1957 (the year when an ample tariff and exchange rate reform was to take place), or, strictly speaking, up to 1961 (the year of the new exchange rate reform). Nevertheless, the year 1953 is a landmark in the course of the debate about this question thanks to the introduction of a free exchange rate market parallel to the official one and, some months later, to the introduction of the multiple exchange rate system.

c) The period 1948/1952 was a golden one for the ideology of economic nationalism — that of the nationalist oil campaign. Vargas's election, while representing a decisive event for the ulterior evolution of that campaign, neither interrupted it nor reverted its ascending course. The relative decline of nationalism was to come only in the second half of 1952.

d) There was an important connecting link between the liberalism of Dutra's government and the developmentalist upsurge in Vargas's administration: the economic ideology of the latter's presidential term, whose origins lay still in the decade of 1930, had been nurtured throughout Dutra's government by the many criticisms addressed against the passivity and liberalism of Dutra's administration — a process that assured continuity to the maturation of the developmentalist ideology. To a certain extent, the conscious developmentalism of Vargas's government was a direct result of the frustrations to which Dutra's administration had subjected those who advocated an industrialization policy for the country.

e) There are some elements of continuity in both the economic and political conjunctures of the period 1948/1952. Inasmuch as economic thought

reflects national economic and political life, those elements reinforce the advantage of treating that period as a single one. With respect to the economic conjuncture at least up to mid-1952, those were years of continuous growth and relative monetary and exchange rate stability straddled by two years of hardships: in 1947 there had been a relative retraction of economic activities and an exchange rate crisis, and 1953 was a year of pronounced monetary and exchange rate crises, as well as a significant agricultural crisis. The period 1948/1952 also brought an improvement to the country's international trade relations, amounting to a phase of relief in the pressures for imports — a phase that was to come to an end in 1952. Regarding the political conjuncture, a common trait among those years has not been sufficiently underlined in political analyses, viz., the fact that in Brazilian society there still prevailed the conservative power agreement made between UDN and PSD back in 1947.<sup>3</sup> Early in his government Vargas chose to try and abide by that agreement in an attempt to neutralize UDN's opposition — which had behaved pretty well until then in its "cordial opposition" to Dutra's administration<sup>4</sup> — and to attract his former PSD allies. The composition of his cabinet, which was basically formed by elements from those two parties, is the clearest demonstration of Vargas's post-electoral political tactics. As for populism, which was his strategy for obtaining political support independently of conservative elites, it was to become a de-stabilizing factor in the regime only at a later stage of his government. The years 1951 and 1952 witnessed a relative social legitimization of the political stability of Vargas's administration. Viewed from this perspective, its striking discontinuity in relation to Dutra's government was to become apparent only in 1953. Brazilian economic thought between 1948 and 1952 is distinguished, on the one hand, from the immediately

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(3) This is the view adopted by Professor José Luiz Fiori (IEI/UFRJ), who is currently developing a thesis in this respect. I am most grateful to him for his guidance.

(4) Concerning the tactics of "cordial opposition", see Maria Victoria M. Benevides, A UDN e o udenismo, Rio de Janeiro, Paz e Terra, 1981, chap. II.



preceding triennium in that it no longer reflected in its essence the rearrangements and accommodations of the post-war democratic transition within its power structure, nor did it reflect the uncertainties, hopes and perplexities of a fundamental issue that had affected that triennium, viz., the normalization of the economics of peace. On the other hand, it is distinguished from the immediately subsequent triennium by an economic and political stability that was not to be found in the years 1953/1955.

ii. Economic conjuncture and political conjuncture

The historical background for the evolution of economic thought at the turn of the decade that was to bring about the Brazilian industrial revolution may be summarized as follows:

a) During the five years 1948-1952 Brazilian economy grew without interruption at an average rate of seven percent p.a. In both 1949 and 1950 there were significant improvements in the country's trade relations, which contributed to the achievement of an average national income growth rate of ten percent p.a. in those two years (as compared to an annual rate of approximately 6.5% real product growth). Here again, the leading growth sector was the industrial one (with an average annual rate of about 11% in the period 1948/1950 and about 6% in the years 1951/1952), while agriculture lagged way behind with an average annual growth rate of 4.5% and a rather irregular performance (growth rates of 7.1%, 4.5%, 1.5%, 0.6%, and 9.1% for the years 1946 to 1952, respectively).

Also proceeding at a fast pace was the diversification in the composition of the industrial output: the five subsectors showing the higher annual growth rates were by and large those in the heavy industry (metallurgy, mechanics, electric materials, transportation materials, and non-metallic minerals).<sup>5</sup>

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(5) The data have been extracted from Malan et al., Política externa..., op. cit., pp. 424-429 and 499.

b) There was a relative equilibrium in the balance of payments between 1948 and 1950, which was made possible by a significant improvement in the nation's terms of trade. This circumstance allowed the exchange rate to remain unaltered, thus leading to a progressive valuation of the cruzeiro (as compared to inflation), reaching an average rate of 10.5% in those three years. A pronounced foreign deficit in 1951 (US\$ 291 millions) and an even larger one in 1952 (US\$615 millions) led to a foreign exchange crisis which eventually speeded up the approval of a project from the Executive Power that had been going thorough Congress channels since 1951 and which abolished the policy of a single fixed exchange rate (February 1953), also preceding the extinction of the anticipated import permit system (in October 1953). In fact, gone were the days of the cruzeiro valuation, reinforced by inflation rates of 12% in 1951 and 13% in 1952 and by even higher cost-of-living indices in large urban centers. As we know, in his now classical work Furtado estimates that as a result thereof the exchange rate mechanism then prevailing, besides protecting domestic industry, had also entailed a huge transfer of resources from the export sector into the industrial one, the latter then substantially raising the level of its equipment and raw material imports and thereby intensifying its investment rates.<sup>6</sup> Furtado's explanation, which was emphatically objected to by Huddle, has been partly defended in other studies.<sup>7</sup>

c) Dutra's government did not pursue any major economic projects and was often criticized in those days for its apathy and passiveness in this field. It sought in vain to respond to those criticism with the Salte Plan, which was, however, scarcely more than a collection of preëxisting projects

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(6) Furtado, C., Formação econômica do Brasil, op.cit., chapter XXXIV.

(7) Huddle, D., "Furtado on exchange control and economic development: An evaluation and reinterpretation of the Brazilian case", Economic Development and Cultural Change, April 1967. Huddle's revision was partly challenged by Fishlow, A., in "Origens e consequências do processo de substituição de importações", Estudos Econômicos IPE-USP, vol. 2, no. 6, 1972, and by Malan et al., Política externa..., op.cit., pp. 99-112 and 171-177.

in the areas of energy, transportation and health, added to a number of new expenditures forecast in the area of food products. The Salte Plan had very few practical results. Its major outcome was perhaps Minister Correia e Castro's resignation from his office, displeased as he was at not having been heard on the Plan (which was elaborated by the DASP and forwarded to the Congress without his knowledge). Until then, Correia e Castro had been severely criticized for the austerity of his monetary policies, the leading criticisms coming from the Governor of the state of São Paulo, Ademar de Barros. Dutra rejected Correia e Castro's request for resignation, but in the following year the Minister was finally replaced by the President of Banco do Brasil, Guilherme da Silveira, following some infelicitous remarks he had allegedly made to Americans regarding Brazilian dependence upon the U.S.A., which were considered unpatriotic at the time. As for Silveira, in contrast with his own performance back in 1946 and 1947, at which time he had worn the colors of a champion of austerity, he had been enforcing a policy of credit relaxation since mid-1948 despite lacking Correia e Castro's concurrence to it. Upon his installation in the ministerial office he recovered some of his rhetoric of austerity but seems to have made little effort, up to late 1950, to check the steady credit expansion policy that continued to be adopted by the Bank of Brazil. Silveira had no means to restore equilibrium to the public budget and there were countless complaints to the effect that the budget was already full of flaws even before it got amended and approved by the Congress. In fact, there were high deficits in 1949 and 1950. In those years, House Representative Horácio Lafer was to become prominent in Parliament thanks to his untiring criticisms against the process of preparation, approval and implementation of the state's budget. If he had any personal plans to run for a future office as Finance Minister, the strategy surely did work out: once elected for the presidential office, Vargas put him in charge of his financial policies. Lafer went into office with a firm announcement that he would cleanse the state's finances, and he did in fact attain superavits in 1951 and 1952, these being largely achieved through

some significant improvements in the tax collection system. Lafer's announcement was completed with the classical rhetoric of fighting inflation "without jeopardizing production expansion", which Ricardo Jaffet, President of the Bank of Brazil, made a point of following to the letter (though without consulting Lafer and in sharp disagreement with him) by markedly expanding the Bank's credit to economic activities.

d) In contrast with Dutra, Vargas was installed in the Presidency with a clear commitment to expand Brazilian industrialization. His Finance Minister, Horácio Lafer, was assigned the task of setting up the internal and external financial and administrative basis (in both cruzeiros and dollars) for infrastructural investments. He did so via the creation — duly approved by the National Congress — of an Economic Reequiptment Plan linked to an Economic Reequiptment Fund, and by the creation of a bank, the BNDE, to administer both of them, as well as the foreign currency resources then being negotiated with the EXIMBANK and the BIRD on the strength of projects formulated by the Joint Brazil-USA Commission (installed in Rio de Janeiro in 1951). The headship of CEXIM, the agency responsible for authorizing imports, was entrusted by Vargas to his friend Simão Lopes, who privileged and intensified the imports of equipment and raw materials. Vargas likewise created the Industrial Development Council (CDI), responsible for guiding decisions about industrial investments through the elaboration of a sectorial plan. Close to him at the Catete Palace the President-elect set up his well-known Economic Advisory Board, which was to be responsible for the formulation of the government's more complex projects in technical and political terms, i.e., those concerning Petrobrás, Bando do Nordeste and Eletrobrás.

e) At the political level, the prominent feature in the years 1948-1952 was their striking political stability. Dutra had conducted an austere government: he had pushed away and violently repressed the Communist Party, fought against workers' movements, and welcomed the Interparty Agreement (PSD-UDN-PL)

that was the symbol of the conservative power agreement introduced in 1947, which lasted for a few years. Vargas and his party, the PTB, maintained an independent position in the face of this agreement. Over Dutra's omission and passivity in terms of a policy for economic development, capitalizing on the criticisms against the former President's monetary policies, and sophisticating his own populist language, Vargas progressively built the political recovery that was to earn him, in the 1950 presidential elections, with the support of both the PSD and São Paulo Governor Ademar de Barros, a total of 48.7% of the national vote (against 29.7% given to UDN's candidate, Air Force Brigadier General Eduardo Gomes, and 21.5% given to PSD's candidate, Cristiano Machado). The Vice-President elect was Café Filho, from the PSP, indicated by Ademar de Barros for the composition of Vargas's electoral slate. UDN engaged in some skirmishes to prevent Vargas's installment in office on the grounds that over 50% of the vote should be demanded for a President to be considered elected. The attempt at obstruction was easily defeated. Once installed, Vargas used as a basic strategy the attempt to instill confidence into the Brazilian entrepreneurial and political elites. With the exception of the Ministry of Labor and the Ministry of Transportation and Public Works, which were respectively occupied by PTB and Ademar de Barros's PSP, all other offices in his cabinet were given to members of other parties. The Agriculture Ministry — and with it the complex issue of the land reform — went to João Cleofas, from UDN. Finance was entrusted to the austerity of Horácio Lafer (PSD), who featured — along with João Neves da Fontoura — as the orchestrator of the strengthening of economic relations with the U.S.A. and of the obtention of financing from both the EXIMBANK and the BIRD. The Economic Advisory Board, which gathered nationalist technical experts, represented no threat: it had a purposefully discreet action which, when once made public upon the presentation of the original project for the creation of Petrobrás, was criticized for its "pro-imperialistic tendency" by the advocates of state monopoly, which that

original project did not propose. The only major occasion at which Vargas steered away from his conciliatory tactics in the first biennial of his government was in delivering a speech at the Congress in December 1951, in which he referred to the way profit remittances and foreign capital repatriation were being made as an instance of "plundering". However, one must not exaggerate the meaning of this episode. First of all, even though Vargas expressed his point in a radical tone, he was right in pointing out that Law no. 9025, of 1946, had been unduly regulated and, worse even, had been clearly violated, thus paving the way for remittances that had indeed been very huge. This was a widely acknowledged fact. Lafer and Jaffet, for example, placidly subscribed to Vargas's criticisms. Second, a message from the Executive Power had already reached the Congress anticipating the establishment of a free exchange rate market for both capital movement and tourism, upon the approval of which the problem of remittances would be overcome. Third and no less important, Brazil clung to its policy of unconditional alignment with the U.S.A. and adopted a far more docile stand, for instance, than that of Peron's Argentina. With respect to the year 1952 and regardless of the foreign exchange crisis and the sharp rise in the cost of living, one can hardly talk about political instability. Moreover, there was a sound basis giving support to the government, as expressed, for example, in the swiftness with which the Congress approved of the creation of BNDE in July 1952.

### iii. Economic thought: general features

Once the turning point of liberal resurgence in the immediate post-war period was left behind, developmentalism gradually gained substance and maturity. Some of the basic factors motivating that process have already been mentioned. In the first place, there was a persistent demand on the part of entrepreneurs for the replacement of equipment in the national productive apparatus to be made feasible, i.e., for priority to be given to the "economic reequipment" policy. Those claims nurtured the debate about national economy's

deficiencies and weaknesses while adding strength to the idea of the need for governmental planning and intervention in order to overcome them. Secondly, there was the paradoxical situation that the orthodox conductors of economic policies in 1946 and early 1947 were led to introduce into foreign policies the last of the measures to be recommended by any orthodox author under normal circumstances, i.e., the control over imports. The liberal orientation of Dutra's government was wiped away by the developments in international trade, which warranted an integral state intervention. At the same time, the international conferences held in Geneva, Havana and Bogota had emptied the American liberal project in favor of protectionism. Thirdly, those were the days of planning not only all over Europe but also in some underdeveloped countries like India, and they were also a time when the BIRD enforced strict rules for granting financial support: in principle, financing could be granted only to those projects that were an integral part of developmental programs. Fourthly, as a result of the foregoing set of circumstances and of the fact that clear directives were being demanded from the government, Dutra's reply — the Salte Plan — confirmed the legitimacy of that demand, both because it did not deny the need to plan the economy and because Dutra's effort toward that end figured as an example of insufficient planning, thus warranting an effort of larger proportions than the President seemed inclined to promote. As a reinforcement to all of these factors, nationalist ideology, centering around the oil debate, was in full blossom and nurtured the realization of the need to rationalize the economy in favor of national development.

In effect, that was a period when economic literature gradually began to reflect a predominance of the developmentalist perspective. To the right of that perspective neo-liberals timidly watched the unwinding of events that contradicted their principles, while seeking to assert that the international system tends toward a restoration of its equilibrium and concentrating their attention on the question of monetary stability. To the left, so-

cialists drew increasingly farther away from national reality, swept up in the wave of radicalization the Communist Party plunged into after being punished with recall and violent repression. Their participation in Brazilian intellectual life was virtually confined to the oil campaign and they followed the debates about this issue specially through their military members and sympathizers. The latter were conveniently kept away from the Party by strict internal safety rules regarding information, with the objective of protecting higher rank officers against anti-communist acts of retaliation, which did eventually affect lower rank officers within the armed forces.

The Military Club and the National Campaign for Oil Defense (CEDPEN) joined efforts to set up a stronghold of the nationalist developmentalist project. After the oil campaign there was a tremendous intensification of the ideology of the country's "economic emancipation", and with it, planned industrialization. Revista do Clube Militar soon became an indispensable reference source not only for the military, but also for civilians interested in the strategy of national economic development.

Apart from the oil campaign, the National Confederation of Industries paved the way for the implementation of the developmentalist project through its Economic Department. As we have seen, this department had been created by Simonsen and organized, upon his recommendation, by Rômulo de Almeida. After Vargas's ascension its most prominent staff members were transferred into new agencies created within the framework of the developmentalist state: Rômulo de Almeida became the head of the President's Economic Advisory Board; Euvaldo Correia Lima and Joaquim Mangia joined the BNDE; and Heitor Lima Rocha joined Petrobrás. By 1950, the Department began to publish the journal Estudos Econômicos, the last issue of which was to appear in 1954. Its early issues, dating from 1950 and 1951, held the greater interest: the March 1950 issue, for example, featured Rômulo de Almeida's now classical work about the planning of Brazilian economy; the September 1950 issue brought a well-known article criticizing the Abbink Commission's report — the article challenged



the full-employment hypothesis in Brazilian economy so as to oppose the recommendation for credit austerity; this issue also featured a summary of ECLA's Economic Study for Latin America covering the year 1949; and the September 1951 issue reprinted the preliminary version of Prebisch's essay titled "Theoretical and practical problems of underdevelopment", which ECLA was to publish only in the subsequent year.

Besides the Economic Department Simonsen had also created an Economic Council at CNI in 1947. Presided over by UDN House Representative Alde Sampaio, an economist who went along Simonsen's and the industrialists' views at least since the debates of the First Brazilian Congress of Economy in 1943, the Council promoted a series of debates about widely diversified questions, as recorded in its Annals. Prominent among these were the debates about monetary policies, exchange rate policies, and the Salte Plan.<sup>8</sup> Although no clear ideology can be detected at that agency in favor of integral and planned industrialization, its debates obviously identified with the proposal of steering economic policies toward a rationalization of national production's growth process. This is confirmed, for instance, by the importance assigned to the discussion of the Salte Plan, the question of economic reequipment, and the debates about the adequate structure to be given to the National Economic Council that was about to be installed.

It is worth pointing out that while they were still members of CNI's Economic Department, those developmentalist economists who were later identified as nationalists — like Rômulo de Almeida, Lima Rocha, and Correia Lima — adopted a discreet and cautious attitude, subordinating their statements to the defense of industrial activities' long-term interests and avoiding topics that might go against entrepreneurs' more immediate interests. For that reason, the differences that distinguished them from the Economic Council's aver-

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(8) "Anais do Conselho Econômico da Confederação Nacional da Indústria", 1947 through 1952, CNI, mimeo.

age members were not made very explicit. Generally speaking, those members' line of thought may be characterized as vaguely developmentalist in that it favored state measures to support industrialization but did not show the impetus to design them, perhaps owing to a lack of clearness and homogeneity within the group.

Also independent from the oil campaign there was still another group of economists following the nationalist developmentalist orientation at the Getúlio Vargas Foundation. This group centered around the journal Conjuntura Econômica and gathered intellectuals like Américo Barbosa de Oliveira and Thomaz Pompeu Accioly Borges. As formerly pointed out, the control of the journal was taken over by the Gudin-Bulhões staff only in 1952. Until then, the FVG staff, which was already the major nucleus of economic liberalism in Brazil, published only the journal Revista Brasileira de Economia ~~Econômica Brasileira~~, which earned a widespread and well-deserved prestige.

Revista Brasileira de Economia ~~Econômica Brasileira~~ emerged as the first periodical to specialize in academic matters and published articles and conferences of distinct tendencies, which in the course of time acquired considerable historical value. Among others, the following texts featured in the issues published in those years:

a) Prebisch's pioneer paper, which had been recently written and was later referred to by Hirschman as the "Economic Manifesto of Latin America" (September 1949);

b) Hans Singer's brilliant independent version of the thesis of a deterioration in the terms of trade (March 1950), as well as a transcription of the five conferences made by that author in Rio de Janeiro upon Eugênio Gudin's invitation, thereby diffusing his interpretation of underdevelopment (September 1950);

c) An introduction to ECLA's best known Economic Survey of Latin America — the one covering the year 1949 — which both elaborated and improved

upon the defense of industrialization presented in the Economic Manifesto (March 1951);

d) The text of a cycle of six conferences made by Jacob Viner in Rio de Janeiro in 1950, also upon Gudin's invitation, which may be regarded as the most refined restatement of the Ricardian principle of comparative advantages Brazilians ever had any chance to hear in those years of decline of liberalism (March 1951);

e) The text reproducing Ragnar Nurkse's Rio de Janeiro conferences, which were later transformed into his well-known Problems of Capital Formation in Underdeveloped Countries.

In the September 1951 issue there was also a text synthetizing FVG's first effort of reflexion and systematization of the national accounts, prepared under the co-ordination of Antonio Dias Leite and Genival Santos. Some other important articles appeared in 1952, such as those conveying Gudin's views on underdeveloped nations ("O caso das nações subdesenvolvidas"), Furtado's comments on Nurkse's conferences, and the text where E. Bernstein, one of IMF's leading intellectuals, formulated his views about the inflationary process in underdeveloped countries.

Between 1948 and 1950 two major occasions enhanced a joint reflexion about Brazilian economy. One of them was the Second National Conference of the Entrepreneurial Classes, held in Araxá, Minas Gerais, at which approximately five hundred theses were introduced. The meeting was organized essentially to guide debates toward the suggestion of actual economic policy measures, thus avoiding the abstract and chiefly doctrinary level of the First Conference, which had been held in Teresópolis, RJ, in 1945. Its general content, to judge from its final recommendations, was a clearly developmentalist one.<sup>9</sup> The other event was the work of the Abbink Mission, which gathered (albeit

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(9) II Conferência Nacional das Classes Produtoras, Recomendações, op.cit., Araxá, MG, 1950.

somewhat asystematically and in poorly articulated commissions) most of the country's major economists. The Abbink Mission concluded their work with recommendations of a general character, divided between developmentalist propositions and statements about the need to attain an internal monetary equilibrium so as to make it possible to rationalize the obtention and allocation of internal resources, as well as to attract foreign capital.<sup>10</sup> Their work served as a lesson for the new Joint Commission that was to initiate its work in 1951: guided by an altogether distinct philosophy, the latter mobilized Brazilian and foreign experts between 1951 and 1953 to produce actual investment projects that could be assessed by international financial institutions.

A third event that promoted intellectual mobilization in those years was a discussion at the National Congress about the Salte Plan. As in the case of the Abbink Mission, it enhanced some advancements in the maturation of the developmentalist project, not so much for its qualities as for its deficiencies. The planning initiatives of Vargas's government were characterized by the operationality, both financial and administrative, of the proposals stemming from its three major planning centers: the Joint Brazil-USA Commission, the Economic Advisory Board, and BNDE. They came forward at a time when the concept of planning in Brazil was supported by BIRD's recommendations and, even more so, by the proposals produced by the major ideological center for the legitimization of developmentalism in the decade of 1950 — the newly created ECLA, whose ideas, as we have seen, were already circulating in Brazil since 1949. By that time, ECLA's language and recommendations had the power to reinforce the position of all developmentalist currents: they were welcomed not only at the CNI, but also thoroughly incorporated by both Lafer-Campos's "non-nationalist" current (gathered together at the Joint Commission and at BNDE) and by the nationalist current (whose foundations lay in Vargas's Economic Advisory Board and BNDE itself).

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(10) This text, know as the Abbink Report, is reprinted in Bulhões, O.G., À margem de um relatório, Rio de Janeiro, Edições Financeiras S.A., 1950.

iv. Economic reequipment, industrialization and planning, and the financing of development

As we have seen, the ideology of planned industrialization had gained some ground in the immediate post-war period. First, there had been a diffusion of the view that industrialization represented the Brazilian hope of overcoming poverty. Second (and though somewhat vaguely), the concept of planning had been ractified in the resistance to liberalism. This had happened despite the collapse of Varguian institutions for economic guidance and control, which went far beyond the mere annihilation of CNPIC's proposal to create a Central Planning Board that was altogether unfeasible from the political point of view. Third, the democratic activation of the public debate had multiplied the interest and participation in the discussion of economic questions. Thus, as that was a time of major projects, the problem of the country's economic future had posed itself to everyone, demanding reflexion and spreading the developmentalist ideology.

The period 1948/1952 gave continuity to this evolution. The progress then achieved was a decisive one. It involved the gradual elaboration of the developmentalist project both at the actual level of identifying priority sectors and programs and at that of identifying the instruments and mechanisms for its execution, as well as at the level of assuring administrative and financial feasibility to the proposals then formulated. In other words, it furthered the realization that the project demanded a vast mobilization from the government so as to support both the preparation of projects in expansion areas identified by programming as priority ones, and the concentrarion of financial resources, added to the selection and creation of the financial agents that were to carry out those projects. During the period 1948/1950 those questions began to suggest themselves in the ideological scene, and with Vargas's election they were given the necessary political space in which to expand.

In the economic literature of this period there are very few traces of

the thesis of an "agricultural bent". As early as 1949, liberal Daniel de Carvalho, then Minister of Agriculture, stated: "We now witness the advent and progress of the industry. Technical know-how has allowed for the exploration of coal in [the state of] Santa Catarina. We have created the heavy steel industry. There are some well-founded hopes of success in the drillings for black coal in [the state of] Piauí; we have launched the cement industry in [the state of] Maranhão and have already drilled some oil wells. Wide prospects thus open up for our industrialization. The latter, however, should develop in harmony with agricultural expansion, which has been largely sacrificed by the disparity between agricultural and industrial prices and profits".<sup>11</sup>

Both in those days as thenceforward that was to be the keynote in the defense of agriculture in Brazil: the need for harmony and equilibrium between industrial and agricultural activities. The conception of an "agricultural bent" was outmoded. At the level of the interpretation of the relations between industry and agriculture, the innovation that increasingly dominated economic thought was the view that agricultural expansion was indispensable to industrial progress, given that it generated goods for domestic consumption, foreign credits for imports, and a domestic market for national products.

This contributed to the mobilization of rural entrepreneurial agencies toward the obtention of governmental measures to support agricultural and livestock breeding activities. At the Second National Conference of the Entrepreneurial Classes in Araxá, MG, over one-hundred fifty theses were submitted on this matter and transformed into approximately one-hundred recommendations.<sup>12</sup> The works conducted in Araxá spanned the major areas of permanent concern regarding the sector's defense and modernization, viz., improvement of agricultural practices; soil conservation; land fertilization and mechan-

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(11) Carvalho, D., "Estrutura agrária do Brasil", OEF, July 1949, pp. 44-45.

(12) II Conferência Nacional das Classes Produtoras, Recomendações, op.cit., pp. 9-38 and 235-244.

zation of plowing, damming and irrigation; power transmission and distribution; co-operativism; storage; and a policy of minimum-price guarantee. They also covered some considerations and recommendations concerning the major agricultural and livestock products, as well as various social issues (hygiene, housing, education, etc.).

The historical innovation from the point of view of the process of a nationwide realization of the problems of economic development was the increasing concern with integral industrialization. There is every indication that the rural sectors did not challenge that project. Not even the cruzeiro overvaluation, which favored the import of products destined to the industrial sector, seems to have roused any conflicts. On the contrary, well into the year 1952, when the local currency's rate still remained at Cr\$18,00/dollar (as in 1939), the Brazilian Rural Society continued to object to any devaluations.<sup>13</sup>

We have already noted that the problem of industrialization in the final years of Dutra's government appeared to be largely involved with the question of "economic reequipment". That was, in fact, the topmost national frustration of the time, and it stemmed from the unfulfilled expectation that when once the war was over the nation would be able to modernize, expand, and diversify the domestic productive apparatus. By 1947, the accumulated resources proved to be insufficient and there was a loud outcry against what was felt to be a wasteful expenditure of foreign credits on superfluous imports. State intervention in this area was legitimized, and CEXIM — which had been so severely criticized at the final wartime years — once again started to exercise full control over foreign trade. Everyone's attention was drawn to suggestions designed to improve upon the permit-granting system with a view to informing it with rational criteria.<sup>14</sup>

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(13) The October 1952 issue of OEF, p. 48, reproduces the statement made by the Brazilian Rural Society objecting to cruzeiro devaluations.

(14) See, for instance, J.C. Boucinhas's article "Controle do comércio exterior - O orçamento de divisas" (D.E., October 1948, pp. 48-57), and Rômulo

More importantly, there was a growing realization that the Brazilian and Latin American dollar shortage was unfair toward the continent's contribution to the cause of the allies during the Great War. As the opinion went, the accumulation of non-convertible currencies by means of commercial surpluses with Europe should be compensated for by the United States, even if only as a simple acknowledgement of the South American continent's support to American positions within the new and troublesome international panorama. The United States' foreign economic policy, centering as it did on the Marshall Plan, was said not only to disregard the developmental problems of Latin American allies, but also to confirm the unfairness of creating a mechanism for the compulsory financing of European recovery through the non-convertibility of European currencies, which the poor countries of the South American continent had neither anticipated nor were able or willing to offer. Simonsen's famous speech at the Quitandinha meeting in late 1947, commented upon in the preceding section, was a highlight among those objections and was acknowledged as a legitimate piece of criticism even by some outstanding American personalities engaged in commercial relations with Brazil, such as Nelson Rockefeller. The question was thus summarized in an expressive article written in 1948:

"In Washington, however, among the most outstanding governmental political leaders and financial economists, no one knows the fountains from which one must draw the miraculous water represented by the six billion dollars Europe intends to collect from Latin America. The latter is evidently also in need of help, but some believe that the countries on this side of the continent are able to help Europe if they wish to do so. In this simple phrase — 'if they wish to do so' — a host of inconveniences, sacrifices, unfairness and disappointment are condensed, for it will soon be changed into a more expressive one: 'if they are compelled to do so'".<sup>15</sup>

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de Almeida's article "Orientação geral para o licenciamento de máquinas e equipamentos" (CNI, "Anais do Conselho Econômico", 1949).

(15) Souza, J.M.S., "A América Latina em face do Plano Marshall", D.E., January 1948, p. 35.



The American reply to Brazilian claims was a diplomatic one: a mission was sent to Brazil (the Abbink Mission) following a decision that, as the saying went, had been made as a direct outcome of the dissatisfaction voiced at the Quitandinha meeting. No such response could possibly please Brazilians. What one looked for were dollars and projects for the reequipment and expansion of basic services and the industry, and not what eventually came out to be the Mission's only practical result, namely, a report containing merely a general assessment of Brazilian economy. Also, while the report did show a developmentalist inclination, it emphasized the need for monetary stabilization as a means to promote efficiency in the obtention and allocation of resources. Among other measures, it recommended credit curtailment, and thus roused considerable animosity among entrepreneurs, who strongly objected to Minister Correia e Castro's policies.

From the perspective of studying the tendencies observed in the economic thought of that period the Abbink Report is an extremely important text. It showed some clearly developmentalist features while at the same time conveying some emphasis that made it palatable to a few neo-liberal economists like Professor Octávio Gouveia de Bulhões, head of the Mission's Brazilian staff. The publication of the Portuguese version of the Abbink Report, which came only in 1950, included in its introductory pages a number of theoretical and applied clarifications written by Professor Bulhões under the heading of "Side notes on the Report".

At first sight one might categorize the Abbink Report as a text whose basic traits identified it with the current of thought we have named "non-nationalist developmentalists". In the first place, it acknowledged the importance of industrialization as a factor of economic development. True enough, this acknowledgement was always accompanied by an emphasis on the need to provide a balanced growth between industry and agriculture — a point with which no developmentalist was in disagreement, but which was not given great prominence by the developmentalist discourse of the time, concerned as it was

with reinforcing the concept of intensive industrialization. In any event, the Abbink Report recommended that an attempt be made to reduce import difficulties through an economic policy that, besides stimulating exports and the attraction of foreign capital, equally aim to substitute imports in such sectors as fuels, iron, coffee, metallurgy, light machinery, chemicals, and fertilizers.

Secondly, the Report supported a more active state participation in the allocation of investments to basic sectors, and eventually even its direct participation in productive activities through the "adoption of a program of governmental expenditures projected in such a way that private initiative may have a balanced development". It went as far as to recommend a moderate raise in tax revenues as a means of financing economic growth, as well as the reorganization and development of a market for Treasury Bonds.

Apart from these generally developmentalist aspects, the Abbink Report conveyed two other features that were to be typical of the later non-nationalist developmentalist current of thought during the 1950s: it was radically favorable to a wide opening to foreign capital inflow and considered it both feasible and desirable to compatibilize economic growth with monetary stability.

These last two aspects in the Report's basic features brought it close to the neo-liberal strand of thought. To be sure, they were not enough to make that work acceptable to a radical like Eugênio Gudin, who was permanently hostile toward any increase of state participation in the economy, especially when associated to the idea of industrialization. However, they did make the Report palatable to moderate neo-liberals like Bulhões. It is worth recalling that Bulhões is viewed as a neo-liberal not so much for having frontally attacked planning and industrialization, but because he privileged the normalization of the price system as a basic formula for economic development. For that reason, he always sided with radical neo-liberals in their recommendations to give priority to monetary stability via a reduction of public ex-

penditures and a retraction of the investment level. Moreover and for the same reason, he did not advance any actual proposals for investment policies, thus distinguishing himself from men like Horácio Lafer and Roberto Campos. Incidentally, it is curious to note that up to the mid 1950s the major concern of the developmentalists who followed Campos's line of thought was to set up an adequate institutional framework to set in motion a process of accelerated industrialization. Campos's own emphasis on monetary stability can be historically dated: it came to the fore during the second half of the 1950s, when both the BNDE and Executive Groups were intensively active and state-supported industrialization began to emerge as a fait accompli. The Abbink Report, written in 1949, appealed to neo-liberals like Bulhões because all of its analyses of the most important issues underlined the idea that it was essential to assure price stability. As pointed out in the text itself,

"The Commission has been constantly confronted with the problem of inflation in its studies about Brazil's economic future. Can a balanced economic growth be achieved in Brazil and bring assured benefits to its people amidst a fast and continuous rise in prices? The Commission believes it cannot. Given this belief, in studying the problems brought up to its examination the Commission has made a point of stressing with the greatest possible emphasis not only the need to reach solutions that are adequate to the peculiarities of each problem, but also to maintain the stability of the general price level".<sup>16</sup>

Significantly enough, in his introductory "side notes" on the Report (which, by the way, are not always strictly in keeping with its content) Bulhões laid emphasis solely on the problems that bothered him most. The two major points in his text are his analyses of "the problems of foreign capital in national economy" and "the extent of monetary problems". And the opening consideration of his text, which Bulhões hastened to highlight, was a clarification that the Abbink Mission's inclination towards increasing state par-

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(16) Bulhões, O.G., À margem de um relatório, op.cit., p. 120.

ticipation was not aimed to fill the space that must be occupied by the "vigorous" Brazilian private initiative, but only to help discipline resource allocation, particularly through the implementation of monetary policies:

"In Brazil, therefore, notwithstanding the evidence of the actively enterprising character of private initiative, there is a need for a governmental policy aiming to discourage the establishment of pecuniary revenues and to stimulate in several ways an income increase as a result of improvements in production. The main axle of such economic orientation should rest upon a wide and intensive system of monetary policies, obviously involving the investment policy. There is no inconsistency, therefore, in the fact that the report simultaneously refers to economic activities based upon private initiative and to state intervention designed to co-ordinate investments".<sup>17</sup>

Bulhões's words of warning do not conceal the ambiguity of the ideology prevailing in those days in relation to state participation in the economy. A journalist who attended the entrepreneurs' conference in Araxá aptly summarized that ambiguity, which was sensed throughout the Conference: "while state intervention in the field of private initiative was condemned it was nevertheless demanded. How are we to account for this phenomenon? The explanation lies in the fragility of the country's economic structure, which can be felt even to this day".<sup>18</sup>

The Abbink Mission was criticized at that time for the two aforementioned reasons. In the first place, it recommended monetary stabilization and credit austerity. The Mission's legitimacy, which stemmed from its joint sponsorship by the Brazilian and the American governments, frightened local entrepreneurs, who feared that the Bank of Brazil's new credit expansion policy (adopted in 1948) might undergo alterations. For that reason, they hastened to criticize the recommendation made toward that end by Abbink Mission members,

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(17) Bulhões, O.G., À margem de um relatório, op.cit., p.8.

(18) OEI, August 1949, p. 26.

which was made public in late 1948. In its Annual Report for 1948, while reiterating the attacks of its earlier reports against the "bawling" of "emissionists" and "inflationists", the Bank of Brazil equally rejected the Abbink Mission's pronouncement that called for a "dramatic curtailment of credit", including credit to agriculture. Bank of Brazil's report stated that the Mission's recommendation "concerning economic and financial matters conveys a policy that is incompatible with the world's current state of affairs".<sup>19</sup> In March 1950, the journal Estudos Econômicos, issued by CNI's Economic Department, published a bibliographic review of the Abbink Report and challenged the hypothesis of the existence of full employment in Brazilian economy, which was one of the Report's assumptions, on the grounds that there was "qualitative unemployment" in Brazil.<sup>20</sup> As we have seen, this expression had been used by the head of the Economic Department, Rômulo de Almeida, since as early as 1947 to conceptualize employment with a close-to-zero productivity, i.e., underemployment. The rejection of that hypotheses served the thesis (so dear to CNI entrepreneurs) that, given the conditions of unemployment, credit expansion would stimulate production. The text also insisted on the inadvisability of subordinating economic policies to monetary ones. We shall revert to this point later on.

The second reason that elicited some hostility toward the conclusions reached by the Abbink Mission was that, by 1949, all that Brazilians expected from any American commission was that it presented solutions to the dollar shortage problem, which in their unanimous opinion made it impossible to re-equip national economy. In other words, Brazilians were looking for something far beyond the recommendation that the country must, by means of monetary stabilization, carefully pave the way for a re-orientation of investments and a

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(19) Banco do Brasil, Relatório de Atividades, 1948.

(20) "Revista bibliográfica - Relatório Abbink", Estudos Econômicos, March 1950, pp. 175-191.

future application of private foreign capital.

The prospect of "reequipment" in those days gave support to nearly all of the most important events in the maturation of developmentalism, i.e., the creation of ECLA, the Araxá Conference recommendations, the priority given by CEXIM to equipment and raw material imports, and Horácio Lafer's developmental plan (the "Economic Reequipment Plan").

ECLA was created by the decision of the United Nations General Meeting of November 1947. Upon his return from the new organization's first plenary meeting in mid-1948, the Brazilian delegate, Octávio Gouveia de Bulhões, provided the following clarification: "It was with the purpose of giving more emphasis to the need to comply with equipment replacement in Latin America that Brazil supported the proposal made by the Chilean delegation to create an Economic Commission for Latin America".<sup>21</sup> Apart from Chile itself, Brazil was probably the country where the new agency achieved wider prestige. Even Gudin, well into 1952 — by which time ECLA's true inclination had become widely known to all — acknowledged the merits of the creation of that organism.<sup>22</sup>

The publication of ECLA's first theses in Brazil, already in 1949 and also in 1950, represented an important landmark in the ideological advance towards developmentalism. After all, it was from a U.N. agency that one received such statements as:

a) Independently of anyone's will a violent process of transformation of the continent's economies has been under way since the decade of 1930, led on by spontaneous industrialization;

b) The industrialization of peripheral countries corresponds to a new stage in the development of mankind, in the sense that it has been the only way to provide the underdeveloped world with a technical progress that, being generated by and held within advanced economies, did not even transfer its bene-

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(21) Bulhões, O.G., "A Comissão Econômica para a América Latina", OEI, August 1948, pp. 99-100.

(22) See Gudin, E., "O caso das nações subdesenvolvidas", RBE, September 1952, pp. 52-53.

fits through international commerce, as the terms of trade have undergone an inexorable deterioration to the detriment of countries that produce primary goods;

c) That industrialization, for all its great historical interest, has been a problematic process, as it faces a multitude of difficulties that are inherent to the scarcely diversified economic structures of low average productivity that are characteristic of peripheral economies, since the latter have been established on the basis of a specialization in export-oriented primary products;

d) The success of the historical process under way is therefore dependent upon a decisive planning effort that may bring rationality and efficiency into the obtention and allocation of resources.

In Part I of the present work we have already stressed the importance of ECLA's thinking in terms of the new analytical framework that was to be instrumental to the argumentation of Brazilian developmentalists. At this point, therefore, it is enough to highlight the distance between the unpretentious proposition of a "reequipment" that supported the creation of ECLA and the foregoing cogent ideological message in support of the transformation of peripheral economies that eventually became typical of that agency.

By the same token, the expectations of economic reequipment held at the Araxá Conference were the prospect that paved the way for more advanced propositions of developmentalist policies. The final text prepared by the Conference's Industrial Production Commission, on which the thesis of "Reequipment and Expansion" submitted by CNI's Economic Department had a decisive influence, contains some expressive developmentalist considerations under the heading "Problems of reequipment and industrial development".<sup>23</sup> There we find,

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(23) In order to verify this influence, compare the text conveying the Araxá Recommendations with the section "Problemas da Indústria" in the paper "Sugestões para a Conferência de Araxá", prepared by CNI's Economic Department. CNI's paper was published in Estudos Econômicos, September 1950, pp. 139-240.

for instance, the statement that "the development of industry in general will be accelerated by the creation of heavy industries and industries that produce essential raw materials", or that "the impetus given to certain industrial branches will additionally increase the saving of foreign exchange credits".<sup>24</sup> It is worthwhile noting that, in keeping with the fashion of the day, the document warns that "it is prudent to anticipate the eventuality of new international difficulties that may put additional pressure on the efforts of our productive apparatus both on behalf of domestic supplies and in performing any eventual mission at the international level".<sup>25</sup> Also, it is worth transcribing the four initial recommendations with which entrepreneurs accompanied these and other supplementary statements:

- "1. that the government may study and adopt a national policy for industry reequipment and expansion of the industrial apparatus as an essential prerequisite for the country's economic development and for the upgrading of the population's standard of living;
2. that, for the foregoing purpose, the imports of machinery and capital goods be facilitated by fiscal and incentive measures;
3. that stimulation and assistance, including fiscal and long-term credit facilities, be granted to the national production of capital goods designed to supply the reequipment needs of the country's productive sources, and that such facilities be likewise extended to those companies that are in a position to promote their own reequipment through the use of national products;
4. that in the event of a recurrence of international difficulties that affect the import of capital goods, adequate measures are not postponed, but rather immediately enforced to reequip and develop national industry; ..."<sup>26</sup>

The guideline issued by the Conference's organizers was that attendants should endeavor to advance actual recommendations for economic policies, avoiding the doctrinary style of the Teresópolis Conference. That orientation was

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(24) II Conferência das Classes Produtoras, Recomendações, op.cit., p. 44.

(25) Idem, p. 43.

(26) Ibid., pp. 44-45.



accepted and a sharp contrast is thus detected between the document conveying the Araxá "Recommendations" and the Teresópolis Economic Letter. The sharpest contrast, however, is to be found in the position conveyed by the commission which gathered commercial entrepreneurs in Araxá, as compared to that of its Teresópolis counterpart. At Teresópolis, as we have seen, the general tone had been distinctly liberal and there prevailed an expectation of a quick normalization of international trade. In Araxá, to judge from the report approved by the Conference's attendants, whose final wording was given by developmentalist Aldo Franco, the view presented was quite a different matter. In the first place, in the text prepared by the Commercial Policy Commission we note an open scepticism regarding the possibilities of a fast improvement in the international trade situation. What entrepreneurs did display was an intention to improve upon defense mechanisms to safeguard Brazilian foreign trade operations (study of bilateral and multilateral agreements, compensation agreements with nations whose currencies were not freely convertible, etc.), as well as to participate in "the negotiations for and preparation of commerce treaties and agreements, including the right to express opinions on the selection of items and the quantity of goods covered under negotiated agreements".<sup>27</sup>

Second and more important, we note a radical change in the view about the role to be played by foreign trade in the country's economic development. The Araxá text begins with the remark that "in strengthening the domestic market lies the fundamental basis of a greater soundness for our economic structure".<sup>28</sup> Among other immediately subsequent recommendations, special attention should be given (a) to the recommendation that "the entrepreneurial classes, bearing in mind the characteristics of Brazilian consumers, jointly promote advertising campaigns designed to defend and increase the consumption of national products", and (b) to the recommendation that "adequate legislation be

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(27) II Conferência das Classes Produtoras, Recomendações, op.cit., pp. 119-122.

(28) Idem, p. 117.

passed to the effect that, in the case of purchases made by public administration agencies, mixed capital companies and autarchic agencies, preference be given to national products whenever they comply with the requirement of price equivalence and offer adequate technological characteristics".<sup>29</sup>

Thus, though only four years had gone by between Teresópolis and Araxá, the major concerns differed considerably at each conference. At the latter one, instead of hopes for the normalization of international trade and a liberal ideology, we find the view that national economy must readily prepare itself to face the need to develop ever more autonomously.

The outbreak of the Korean war confirmed that view and intensified the concern, then widely reflected in the press, that the country must be prepared for the eventuality of a prolonged world war. OEF's editorial recalled: "And what about production? No one can honestly say that we can at this point bear the hardships of a new conflict".<sup>30</sup> Developmentalist Aldo Franco, the orator of the "Economists' Week" promoted by the Rio de Janeiro Economists' Union in September 1950, in a lecture where he defended the maintenance of the policy of import licensing, voided the suggestion that no Brazilian products of vital importance to the U.S.A. should be commercialized without a guarantee that, in exchange for them, the country would receive the equipment and raw materials that were indispensable to Brazilian economy: "In order for us to assure the import of the products that are still available — eleven of them have already been classed in the category of critical materials in the U.S.A. — we feel that the solution lies in negotiating and signing supply agreements".<sup>31</sup>

Simões Lopes, then head of CEXIM, had no difficulty in conducting the policy of intensifying imports of industrial equipment and raw materials that was to give rise to a serious crisis in the exchange rate system during 1951

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(29) II Conferência das Classes Produtoras, Recomendações, op.cit., p. 118.

(30) OEF, July 1950, p. 4.

(31) Franco, A.B., "Alguns aspectos do comércio exterior no Brasil", D.E., January 1951, p. 27.

and 1952. When asked by the National Economic Council to account for his policy, he explained that it was guided by three criteria, viz., the "provision of stocks and equipment replacement", "precautionary supplies", and "substitutive national production". Regarding the latter, he stated:

"We must now examine the third of the criteria that have guided CEXIM, i.e., that of the existence of national counterparts. CEXIM's experience has shown — and this has been confirmed at a more theoretical level by the studies conducted by U.N.'s Economic Commission for Latin America — that, given the relatively small expansibility of our export products, which is aggravated by the long-term unfavorable trend in the terms of trade and by the relative stagnation of net capital inflow, the exchange rate pressure shall be constant and unavoidable unless we can develop import substitution activities at a satisfactory pace, or else have to resign ourselves to a slow rhythm in our development. The demand for imports, in other words, grows more rapidly than import capacity. Therefore, whereas CEXIM admits that other protection instruments like customs protection or fiscal subsidies are less subject to abuse and abler to maintain the drive toward technological improvements than are quantitative restrictions, it has been compelled the use the latter to a somewhat large extent as a way to encourage the industrial development required to substitute imports. This encouragement is expressed in the form of market reservation, i.e., by not granting permits for the import of products that compete with the emerging national industry (...)"<sup>32</sup>

Simões Lopes was widely criticized, but he also had many defenders even among press officials who were hostile toward Vargas. Incidentally, it is symptomatic that he should have chosen the São Paulo Federation of Industries as the place to deliver his major speech acknowledging the seriousness of the foreign exchange crisis and defending the orientation he had imprinted upon CEXIM. In that speech Lopes stated that he "would sooner be left without any dollars than without raw materials".<sup>33</sup>

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(32) Lopes, S., "Diretrizes da Carteira de Exportação e Importação", RCNE, July 1952, p. 20.

(33) Quoted in OEF, August 1959, p. 33.

In effect, CEXIM's action complied to directives that had been set by Vargas. In his Message to the Congress in early 1951, the President had stated, in referring to the anticipated import permit system, that "bearing in mind the chronic tendency to a disequilibrium in the balance of payments, the maintenance of this instrument is advisable not just as a mere emergency resource, but rather as an essential complement to the measures designed to channel resources towards more productive applications". He next noted that "other nations' defense preparations alter supply and demand conditions in the world market", so that one might anticipate "that in a relatively short term the situation of the country's balance of payments will tend to be reversed".<sup>34</sup>

Hence,

"At the international level, as far as economic aspects are concerned, the Government shall seek an understanding with friendly nations whereby it may sign agreements that assure our country the supply of essential raw materials and equipment, the stability of our export revenues, and the maintenance of the purchasing power of whatever balances may eventually be accumulated.

At the domestic level, apart from the monetary and fiscal measures indicated elsewhere, I shall endeavor to promote a policy of storing essential goods; increasing storage capacity; and accelerating the conclusion of works of paramount interest to the country's economy that depend upon foreign financing, securing for that purpose the necessary priority of indispensable imports".<sup>35</sup>

General Anápio Gomes, drawing on his experience as head of the Co-ordination for Economic Mobilization during the II World War, was clearly worried about the course then being taken by the military negotiations between Brazil and the U.S.A. Prominent in those negotiations, apart from the controversial question of sending Brazilian troops to Korea, was the question of the supply

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(34) Vargas, G., "Mensagem ao Congresso Nacional apresentada por ocasião da abertura da Sessão Legislativa de 1951", in O governo trabalhista no Brasil, Rio de Janeiro, José Olympio Ed., 1952, vol. I, p. 157.

(35) Idem, p. 158.

of strategic raw materials like manganese, uranium, and monazitic sand. At an interview granted to the "Diários Associados" chain in 1951, Gomes stated:

"Trusts and cartels, of course, are both authors and advocates of the thesis of free access to our raw materials. They nevertheless use every possible means available to obstruct the counterpart in our favor, i.e., our free access to the sources of industrial equipment. Whereas we are granted every facility to import petit pois, nylon stockings, radio sets and all manner of knick-knacks, they raise every kind of obstacle to our import of production goods, such as machinery for the modernization of our industrial apparatus and the mechanization of our agriculture".<sup>36</sup>

It must be noted that Gomes was one of the less radical nationalist military officers in Brazil. There was an entire current within the armed forces whose position was that no strategic national resources whatsoever should be negotiated, let alone the possibility of sending troops to Korea. That was the most exalted group within the extremely large current that joined efforts with civilians to mobilize the society throughout those years in the nationalist oil campaign. The editorials of Revista do Clube Militar and articles by authors like "Captain X" and Colonel Salvador Benevides identified the control over natural resources and industrialization with independence, sovereignty and national economic and political emancipation. While the Conference of Foreign Secretaries was being held in Washington in the first half of 1951, Colonel Benevides denounced in Brazil the country's alignment with the U.S.A. by using the traditional argumentation of his ideological current: "the projects cherished [by the U.S.A.] about Brazil are always the same, i.e., to keep it as a large supplier of raw materials without ever providing it with the conditions required for its gradual transformation into a major industrial country capable of exploring its own raw materials".<sup>37</sup>

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(36) Gomes, A., extract from an interview granted to the "Diários Associados" in connection with the Marshall Plan, reprinted in Revista do Clube Militar, June-July 1951, p. 81.

(37) Benevides, S., "Defendamos o Brasil", Revista do Clube Militar, April 1951, p. 63.

The important fact to point out with regard to Brazilian military thinking in terms of the analytical perspective we are concerned with is, that whether or not military officers favored an alignment with the U.S.A. and regardless of their being radical or moderate nationalists, several of them were in favor of the country's intensive industrialization. National sovereignty and economic emancipation were understood to depend upon the control over natural resources and the promotion of industrialization, and also to be the only decisive way to plan national defense. Some officers, instead of relating these topics to the question of "defense", preferred to steer the reflexion toward a different direction and simply declare "war against national poverty" (via planning), as was the case of Air Force Brigadier Guedes Muniz, who implicitly alluded to the inconveniences of getting the country involved in the international conflict.<sup>38</sup>

From the point of view of intellectual militancy, the most outstanding personality was already Major Nelson W. Sodré. In a tone that was always less exalted than that of his fellow socialists and using a professorial style, he held on to the argumentation that industrialization was the major historical process in the restructuralization of Brazilian neo-colonial economy. Equally active, though without showing the same intellectual concerns as Sodré, was the executor of the Volta Redonda Steel Mill project, Colonel Edmundo Macedo Soares, a moderate nationalist. At a conference held in June 1949 at the Army's Academy of Staff Officers his opening remarks anticipated a work that was to be carried out two years later by the Industrial Development Council. Among the industries that were crucial to the Brazilian people's sovereignty he listed the ones normally described as "heavy industries", i.e., "basic metallurgic melting", "heavy chemical industries", and "heavy mechanical industries". The conference proceeded by providing both a list of and a number of considerations

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(38) Muniz, G., "A industrialização no Brasil, fator de sobrevivência", OEF, March 1951, pp. 70-76.

about other basic industrial segments, energetic resources, and basic industrial raw materials.<sup>39</sup>

To judge from such indicators as the writings that circulated among military officers, the Araxá recommendations, the pro-industrialization articles published in different periodicals, and the hearty acceptance of ECLA's theses, we could say that in the final years of Dutra's government there already existed among the country's technical, military and entrepreneurial elites a fairly good systemic view of the problems of Brazilian industrialization. In those days we already find a reasonable number of economists who used every opportunity to support the developmentalist project, including the opportunity of challenging the theses that were opposed to it. Djacir Menezes and Roberto Pinto de Souza, for instance, were two of the many economists who fought against the conservative messages brought to Rio de Janeiro by Viner in 1950.<sup>40</sup> Socialist author Moacyr Paixão, in a countless number of articles and using a more emotional tone than Sodré's despite following the same line of argumentation, warned that Brazilian economy was undergoing a profound crisis (Sodré talked about a transitional crisis) and that national independence could only be made feasible through the domestic manufacturing of production goods.<sup>41</sup> The heterodox proposals that circulated within international conferences in defense of poor nations' industrialization were also given wide coverage, as in an excellent series of articles by Eduardo Silveira Gomes concerning the Rio-London-Geneva-Havana-Bogotá cycle.<sup>42</sup> And though the first Brazilian study about the deterioration in the terms of trade, conducted by Hêlio Schlittler

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(39) Silva, E.M. Soares, "A indústria brasileira e a auto-suficiência", OEF, October 1949, pp. 50-64.

(40) See Menezes's article "O equipamento industrial nos países subdesenvolvidos", D.E., October 1951, pp. 170-174, and Souza's article "A escola clássica e os países subdesenvolvidos", D.E., November 1951, pp. 53-57.

(41) See, for example, Moacyr Paixão's article "Características do desenvolvimento industrial do Brasil", D.E., April 1951, pp. 79-83.

(42) Published in Revista Bancária Brasileira, issues dated July, August, September, and October 1950.

da Silva, was to be published only in 1952,<sup>43</sup> Prebisch's and Singer's theses, as well as the U.N. study about that topic had already been widely diffused by late 1950. Vargas was to incorporate the topic of industrialization into his campaign, though not privileging it particularly,<sup>44</sup> and soon later transformed it into one of his governmental priorities.

Vargas's Message to the Congress in the opening legislative session of 1951 is the longest document in support of integral industrialization ever written in Brazil up to that point.<sup>45</sup> Coined "Programmatic Message", as it summarized the basic directives the President meant to follow during his government — and which indeed inspired the investment programs and projects that were proposed and introduced in subsequent years — this document is a historical milestone in the developmentalist project. The President of the Republic himself, elected as he was by 48% of the nation's vote, was the one to announce in an extensive and detailed account that the state was to guide and promote the process of capital accumulation with a view to implementing heavy industry and the basic infrastructure for economic development. The document conveyed the decision to pursue overall state-oriented solutions to the problems of energy, transportation and communications, as well as to establish or expand heavy industries in chemical, metallurgic, electric material, and transportation material sectors (railway, naval, airline, automobile, and road construction equipment). Duly ratified and reinforced by the other presidential messages read before the Congress in that and the subsequent years, as well as by several speeches and governmental initiatives in general, the document contemplated, as aptly pointed out in a study about that period, a "combined set" of investments in the production goods sector.<sup>46</sup>

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(43) Schlittler da Silva's article "Índices de preços no comércio exterior do Brasil" was published in RBE, March 1952, pp. 69-98.

(44) See Vargas, G., A campanha presidencial, Rio de Janeiro, José Olympio Ed., 1951.

(45) Vargas, G., "Mensagem ao Congresso Nacional...", op.cit.

(46) Cf. Draibe, S., Rumos e metamorfose..., op.cit., p. 239.



Three basic arguments supported the industrialization project in the Programmatic Message. First, there was the idea of a "stimulation of national production", which was a commonplace expression in speeches made during that Brazilian stage. Second, we find the argument of a need to prepare the economy for uncertainties in the import of equipment and raw materials, which reflected the threat of the outbreak of a third world war.

The third argument was by far the most important one. It reflected the view of the structural transformation then under way in Brazilian economy and did so in a language that, had it not carried Vargas's signature, one might ascribe to the writings of Prebisch's staff:

"In effect, economic development calls for an increasing number of imports of production goods, and as income grows it also calls for larger volumes of consumption goods imports. But import expansion presupposes an increase in the international demand for our export products, along with an inflow of foreign capital. Our exports, however, have not expanded in proportion to the demand for imports and capital inflow has been neither significant nor stable. As a result of this, the country's balance of payments tends to show a chronic disequilibrium that restrains the domestic economic progress. Our rigid import needs, in contrast with the unstable demand for our exports, save for some episodic interruptions, forcibly lead to a deterioration in the terms of trade, which becomes an additional factor in the relative reduction of our purchasing power abroad and thence in the equilibrium of the balance of payments itself.

Under such circumstances, by means of a slow and discontinuous adaptation process national economy has been undergoing a structural transformation that consists essentially of import substitution by domestic production and export diversification. This process, which began with the substitution of import items designed for consumption, has been prolonged in the recent past by an increase in the domestic production of capital goods that were formerly imported. In the exports sector there emerged a large number of products, many of which are only occasionally demanded, to be sure, while others have become substantial sources of revenues, as is the case with cotton, lumber, seeds and vegetable oils, and some other primary products. One of the major targets of the government's economic policy must be the establishment of con-

ditions that may facilitate the aforementioned adaptation process, in accordance with the trends indicated thus far, as the naturally recommended solution to assure not only economic development but also equilibrium in international trade relations".<sup>47</sup>

A hierarchy of industrial investment priorities was to be elaborated and made public in early 1952 by the newly created Industrial Development Council (CDI), an agency in charge of providing general technical guidance to support investment decisions in that sector. After listing the "basic conditions for expansion" (development of the energy, transportation and communications sectors, intensification of capital flow, credit system expansion, training of technical experts, and improvement of work methods), CDI categorized industrial activities in three large segments: infrastructural, basic, and transformation activities.<sup>48</sup> It next recommended priority treatment for the activities included in the first category (production of fuels and energy, provision of transportation and communications services, and prospection and location of mineral resources). As for the other segments, it proposed as criteria for the assignment of priorities (a) the contribution of each industry to the integration of and equilibrium in the country's economic structure, (b) the availability of both resources and a domestic market, (c) the saving or generation of foreign credits, (d) the absorption of labor, and (e) the reduction of regional disequilibria. It further suggested the following industries as "preferential groups": (a) fuels: manufacturing of primary engines and heavy electrical equipment; (b) metallurgy; (c) chemicals (mineral acids, bases, salts, oils and general material, chlorine and its derivatives, fertilizers, pharmaceutical products, pulp and paper, etc.); (d) textile industries; (e) food industries; (f) rubber and similar products; (g) furs and leather; (h) mechanical industries (machine tools, transportation equipment, agricultural

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(47) Vargas, G., "Mensagem ao Congresso Nacional...", op.cit., pp. 153-154.

(48) This text is reprinted in Draibe's earlier quoted thesis as an Annex to Chapter 3, Part I.

machines, etc.); (i) construction material; and (j) optical material. Among the foregoing, CDI recommended priority to support the energy, metallurgy, chemical, mechanical, food, and rubber sectors.

Developmentalist thinking was not incorporated merely into the President's language or into some official document or other. From then onwards and in a most decided way the major state economic institutions began to express and diffuse the project of integral industrialization through their technical staffs. During Dutra's government civil society institutions had been the major strongholds of developmentalist resistance and expansion (CNI, part of FGV, CEDPEN, and — to the extent one may call a military association a "civil society" — the Military Club). From that point onwards and resuming the course initiated in its early stages (the years 1930-1945), developmentalism was once again installed in the Brazilian state apparatus. Its major centers were to be the federal economic agencies located in Brazil's capital (the President's Economic Advisory Board, the Bank of Brazil, the Joint Brazil-USA Commission, and the National Bank for Economic Development), except that civil officials were now to play a more substantial role than military men.

This movement clearly served to deny validity to the economic project of Dutra's government, or rather to point to the lack of a project for integral state support to the capital accumulation process during his administration. The new spirit, which had been maturing throughout Dutra's government, took hold of Brazilian state institutions. At an initial stage, even the newly installed National Economic Council — which was later to maintain a discreet, cautious and occasionally conservative stance as compared to developmentalist enthusiasm — reinforced the conception that was becoming predominant in economic thought. In the introduction to the first issue of its annual series headed "General Account of Brazil's Economic Situation", covering the year 1951, we read, among others, the following recommendations:

"To regard industrial development as the propelling axle of economic progress, which it is wise to guide by sufficiently flexible directives

so as to provide the country with a faster expansion through the permanent encouragement of private initiative;

To restrict the application of state resources to major basic enterprises that do not attract private capital. Such enterprises may lead private capital, both national and foreign, toward a larger and safer application not only in the industry and in economic activities at large, but also in basic production sectors themselves; (...) <sup>49</sup>

At that point, two developmentalist currents also began to be more clearly outlined within Brazilian state institutions. Horácio Lafer — who, as a House Representative during Dutra's government, had already referred to the need to create a "mystic of development" in the country — was to become the champion of an elite of technical experts who favored both industrialization planning and intensive foreign capital participation even in mining, energy, and transportation. "Non-nationalist" developmentalists, who favored what was later to be called the project of "associated capitalism", formed the basis of the Brazilian side of the Joint Brazil-USA Commission and the basis of BNDE's first board of directors. With uncommon swiftness Lafer managed to create conditions for the implementation of his developmental program, named "Economic Reequiment Plan". He secured the Congress' approval to the following essential innovations: (a) a raise in the taxation of legal entities and individuals in the higher income brackets so as to create a Fund for Economic Reequiment (law no. 1474 of November 1951), which was to be the cruzeiro counterpart of an application for financing Lafer had been negotiating with the BIRD and the EXIMBANK with the help of João Neves da Fontoura; (b) an authorization for the Executive Power to contract or vouch for foreign credits designed for either the Reequiment Plan or public service activities (law no. 1518 of December 1951); (c) creation of the National Bank for Economic Development (BNDE), with both administrative autonomy and juridical personality, under the jurisdiction of the Finance Ministry, to carry out the economic re-

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(49) CNE, Exposição Geral sobre a Situação Econômica do Brasil - 1951, introductory chapter, p. 12.

equipment plan and act as a National Treasury agent in the financial activities that concerned it, setting up the general guidelines for activities within the Plan and stipulating their organization (law no. 1628 of June 1952). By the same law, a portion of the resources from welfare institutes and insurance and credit agencies began to be mandatorily collected by the new bank to reinforce the reequipment fund, in compliance with the old recommendation (widely discussed in the decade of 1940 and also advanced in the Abbink Report) to employ those resources in productive investments.

Besides co-ordinating these initiatives, Lafer privileged the work of the Joint Brazil-USA Commission, which, between 1951 and 1953, prepared forty-two investment projects that were later carried out largely under the auspices of BNDE. In the current led by Lafer at both the Joint Commission and BNDE the outstanding economists were Ary Torres, Glycon de Paiva, and Roberto Campos. These men lacked no enthusiasm for the promotion of industrial development via state guidance and support. Campos, in particular, was to express his enthusiasm, as we have seen, in several conferences made in 1952 and 1953. Both the state as a planning agency and foreign capital as an investor were seen as two equally indispensable agents in the Brazilian developmental process, by virtue of the weakness of the national entrepreneurial class.<sup>50</sup>

At Vargas's Economic Advisory Board, Rômulo de Almeida, Jesus Soares Pereira and Ignácio Rangel, among others, formed the core of the other outstanding current of developmentalist economists in those years: the "nationalist" strand. The other center, BNDE, began to be formed in 1952. Its first Administrative Council already featured the name of Cleantho de Paiva Leite (then working at Vargas's Presidential Office), while the list of its early technical staff members included the names of Ewaldo Correia Lima and Américo Curi.

A point that is not always well understood and that requires analytical precision is that nationalist economists in general did not object to fo-

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(50) See chapter 3.2, Part I of the present work.

reign capital, except with regard to national state companies' control over service and mining infrastructural sectors. In fact, as that was the time of building up the institutional framework that would be indispensable to all developmentalist tendencies and given that their basic project was the same, i.e., industrialization with state support, there were many more commonly shared views than divergences between the technical experts in those two currents. Indeed, the thought expressed by either Roberto Campos or Glycon de Paiva in those days had a lot more in common with Rômulo de Almeida's ideas than, say, Eugênio Gudin's. Almeida, for example, said that his project for the creation of Petrobrás (which was merely a moderately nationalist one, following Vargas's orientation) was a "step ahead" towards opening the oil sector to state capital by means of a vigorous action that would firmly establish Petrobrás in this sector. Exasperated at nationalists' criticisms against his project, he stated that the problem at stake was "to produce oil, not slogans". That was also the language used by Glycon de Paiva, a radical defender of free foreign capital inflow, who went as far as to praise Almeida's project for the financial autonomy forecast for the new company. His views regarding foreign capital contribution were, of course, an altogether distinct matter. Almeida favored state control, as he felt that the goals of major international companies providing infrastructural and mining services would be incompatible with national development. Paiva, in turn, accepted state enterprises only as a last resource and felt that the only reason why foreign capital had not become the main agent in the development of the sectors of public services and natural resource exploration, to the benefit of the nation, was the lack of economic policies that might attract it into and hold it within the country. Nevertheless, both Almeida and Paiva, like Soares Pereira and Campos, Ary Torres and Rangel, and the other experts at the institutions then being formed shared a common belief that stood above that divergence: they all felt it was high time to plan and administer Brazilian industrialization. This "historical commitment", which was accepted and privileged by President Vargas and Minis-

ter Lafer, represented the basic trait of ideological unity among all the developmentalist technical experts of the new and modern section of state economic administration then being implemented. Thus, there was far more proximity between the Joint Brazil-USA Commission and Vargas's Economic Advisory Board than those who emphasize nationalist and populist problems would have us believe. By 1952, there was very little in Campos's speeches that did not elicit the applause of the nationalist members of the President's Economic Advisory Board. In fact, experts from both currents were aware of their divergences but had no interest in emphasizing them. They knew quite well that they were facing a crucial point in their commonly shared project: the political time for centralization of the administrative and financial resources that would allow them to guide the Brazilian developmental process.

Let us quickly return to the final years of Dutra's government so as to better seize the meaning of what was going on. Let us first see what happened to the concept of planning. The first point to be stressed is that Dutra's response to the charge that his government had no directives, i.e., the Salte Plan, raised even stronger criticisms from those who considered it insufficient than from those who were doctrinarily opposed to planning. There was, to be sure, Gudin's famous reaction conveyed in his article titled "SALTE no abismo", where he stated that "my bewilderment will no doubt be shared by many at watching the emergence, at this hour, of an achievement plan that follows the lines of a dictatorship and features the expressive designation of SALTE".<sup>51</sup> But above all, what did exist was sheer lack of enthusiasm in the face of a planning initiative that, despite the progressive orientation of

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(51) Quoted in RBB, April 1948, p. 8. There is a deliberate play on words here: the literal translation of the title of Gudin's article into English (as well as a possible interpretation for it in Portuguese) would be "The SALTE Plan in the pit". However, the word "salte" being also the third person singular of the imperative form of the verb "saltar" (to jump), a second and more likely interpretation of the title would be a command to "jump into the pit".

the DASP experts who elaborated it, disclosed the non-existence of a comprehensive and well integrated developmental proposal, as well as the unpreparedness of public administrative agencies with regard to the obtention and allocation of resources. It is quite true that the entrepreneurs assembled in Araxá supported the Plan where it concerned its major items (energy, transportation and health), and suggested some modifications only in the section dealing with food. The Araxá Recommendations even praised the "effort of organization and technical know-how on the part of [the Plan's] formulators", as well as "the advantages of planning to give order to and accelerate economic development".<sup>52</sup> Actually, however, the outstanding features of that text were its unenthusiastic tone about the Plan and the subtle remark (which synthesized the reason for entrepreneurs' support) that "the parts [of the Plan] relating to transportation, health and energy already consisted, in the past, of independent programs that were under way and relied on their own budgetary funds; experience thus points to the convenience of their continuity".<sup>53</sup> In other words, entrepreneurs did not object to those public works that were already under way or already projected (and around which some strong interests are likely to have been built), and they did not object to a program that stood as a symbol of the PSD-UDN Interparty Agreement, for the Salte Plan had been introduced as part of that conservative agreement. Moreover, entrepreneurs' foregoing remark meant that the Plan actually brought no innovations relative to investments formerly anticipated, i.e., it was at best a naive attempt by President Dutra to demonstrate that there were rationality and purpose in his economic policy. The Annals of the Economic Council of the National Confederation of Industries display more vehement criticisms. Economist Marcial Dias Pequeno said that the Salte Plan set up no priorities, lacked both co-ordina-

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(52) II Conferência Nacional das Classes Produtoras, Recomendações, op.cit., pp. 168-169.

(53) Idem, p. 169.



tion and a forecast for its execution, and should by no means be put in practice before undergoing some major changes. The opinion voiced by other Council members seemed less radical in that they detected in the Plan at least an intention not to interrupt investments already made in public works that were indispensable to development. The keynote at CNI, however, was dissatisfaction at the Plan's inadequacies.<sup>54</sup> By the same token, journalist Omer Mont'Alegre thus summed up his views about the Plan:

"[The] SALTE [Plan] is closer to being a governmental program than a work of economic planning.

Notwithstanding the abundant data about the recent past and the present, its conclusions failed in both cases to give any objective indication of the levels to be attained.

Although the volume of material presented is enough to indicate the efforts made toward [the Plan's] completion, the work lacked a final revision that might reconcile the diverging points of view of the various experts [who prepared it] regarding administrative and economic questions.

Elaborated as it was on the assumption that it would be turned into law by the end of the first semester, the SALTE Plan was expected to be carried out during the second half of the current year; as it has not even reached the Congress so far, the deadline for its execution has been postponed and is naturally subject to modifications".<sup>55</sup>

The essential point for us is, that except for some liberals like Gudin, Dario de Almeida Magalhães, and Tristão da Cunha, who, disagreeing with the messages conveyed by the BIRD, the Abbink Mission and the Araxá entrepreneurs, continued to object to planning for doctrinary reasons, economic thought at the close of Dutra's administration showed a growing realization of the Brazilian state's unpreparedness to face the challenges of economic development. The Lafer Plan and the projects for which Vargas created his Economic Advisory Board were an objective response to that lack of preparation.

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(54) The debate about the Salte Plan at CNI's Economic Council can be found in the Annals for the year 1948, mimeo.

(55) Mont'Alegre, O., "O Plano Salte", OEF, August 1948, p. 59.

The strategy then adopted was pretty clear: the point was to break through the old-fashioned and disordered Brazilian institutional structure and create agencies with the power to plan and put into practice what proposals were advanced. On the one hand, an Economic Advisory Board directly linked to the President was created to formulate plans for the expansion of the energy and transportation infrastructure, associating that expansion to the implementation of state-owned enterprises whose political feasibility would be assured by the President. On the other hand, via the Lafer Plan, administrative and financial conditions were created to formulate and carry out projects in those and other major developmental areas, centralizing at BNDE the obtention of domestic and foreign resources for the country.

The Lafer Plan simultaneously overcame a number of obstacles that hindered the developmentalist project. First and foremost, it overcame the strong opposition to tax raises by both entrepreneurs and the National Congress. For that purpose it selected the subtle course of introducing a "15% additional tax" over the income tax payable by companies and individuals in high income brackets, to be reimbursed after a few years. To understand the progress represented by this measure we have but to note that the very developmentalist economists who had worked at CNI during Dutra's government had opposed any tax raises whatsoever on productive companies on the grounds that this measure would affect investments and growth.<sup>56</sup> This topic was not a frequent one in the literature of the time, but when it did emerge the view favoring the avoidance of any raises in profit taxation was almost unanimous. The Araxá Recommendations were the rule and not the exception in proposing "that the taxation of company profits be reduced so as to encourage capital investment in productive and commercial activities".<sup>57</sup>

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(56) The criticisms made by CNI's Economic Department against the Abbink Report, for instance, conveyed an unnecessary challenge to the tax increase proposal advanced by the Abbink Mission, since that proposal included no income tax increases payable by legal entities.

(57) II Conferência das Classes Produtoras, Recomendações, op.cit., p. 108.

Secondly, the Lafer Plan finally created the investment bank that some industrialists had been claiming for since the "Estado Novo" and that, once included in the Central Bank project submitted to the Congress by Dutra, had been hindered by the endless difficulties that project had to face within legislative channels, including the charge that it favored state control and heralded the creation of a number of partly state-owned institutions.<sup>58</sup> Still more importantly, the new bank — the BNDE — was being created with full administrative autonomy, which assured considerable independence to the application of the financial resources it must handle. Thirdly, the bank simultaneously became an important channel for the obtention of foreign resources, as it was given the job of contracting and vouching for international credits to be allocated to BNDE-supported investments and public works in general.

This was, in short, the major innovation developmentalists witnessed in the early 1950s. From the perspective of the developmentalist project, there really was ample reason to privilege investment-promoting initiatives and not slogans. Whether they were nationalists or otherwise, developmentalist economists were all tuned to the same wave.

#### v. Inflation and the balance of payments

As is usual in countries with inflationary economies, the question of inflation was a topic that drew permanent attention in Brazil during 1948/1952. Some of the major conjunctural traits responsible for that interest have already been pointed out. First, there was a strong entrepreneurial opposition to Correia e Castro's contractionist policies. It would be no exaggeration to

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(58) Among Brazilian economists, as formerly observed, the most enthusiastic advocate of the creation of a Central Bank (and of a long-term capital market) was Professor Bulhões. On several different occasions his colleague Eugênio Gudín stated that no Central Bank should come into being prior to a thorough financial and monetary sanitation of national economy, lest it would lack credibility from birth. Bulhões disagreed with Gudín on the grounds that a Central Bank would act precisely as an invaluable instrument to provide that sanitation. See, for instance, Gudín's article "A rendição da guarda", *D.E.*, 1950, and Bulhões's remarks in *À margem de um relatório*, op.cit.

call it a "campaign for credit to production", such was the flood of complaints voiced by entrepreneurs. Second, there were widely generalized criticisms against the budgetary deficits verified in the latter part of Dutra's government. Given these two circumstances, Lafer was installed as Finance Minister in early 1951 endeavoring to convey an image of "non-recessionist" austerity based upon proposals for budgetary equilibrium via improvements in the tax-collecting system, but without altering the taxation structure, and equally based upon a careful and selective credit expansion. Vargas reinforced that image by accusing his predecessor of being too contractionist early in his governmental term and too expansionist at its end. Despite entrepreneurs' objections, Vargas managed to secure approval from Congress for the creation of a Fiscalization, Supply and Prices Commission (COFAP) that was meant to replace the inoperant Central Price Commission.<sup>59</sup>

From the entrepreneurial point of view, as usual, inflation was attributed to public deficits and, above all, to wage raises. The final document of the Araxá Conference remarked that "the existing relation between production costs and labor charges makes it necessary to adjust prices whenever wage raises are granted following a determination of the Special Labor Courts".<sup>60</sup>

Liberal economists echoed entrepreneurs' words both in their attacks against public deficits and in their criticisms to wage raises. In 1948, in an unfortunate public pronouncement that was severely criticized in the press and using a language that would have been typical of a neo-classical academician in a classroom, Gudin stated that "generally speaking, the Brazilian man earns what he is not worth earning".<sup>61</sup> But in dissonance with the choir, whenever they had no strict commitments with entrepreneurs' immediate interests,

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(59) At the Araxá Conference entrepreneurs recommended the elimination of price-controlling agencies. During 1951 there were several manifestations by entrepreneurial agencies objecting to the Central Price Committee.

(60) II Conferência das Classes Produtoras, Recomendações, op.cit., p. 56.

(61) Cf. news report "O que diz a imprensa", RBB, April 1948.

neo-liberals added their criticism to credit expansion, thus rounding up — along with wage raises and budgetary deficits — the triad of factors that accounted for "full employment inflation".

As for laborers, if they had few objective possibilities of organizing a political movement in defense of their real wages, fewer still were their channels of debate at the ideological and intellectual levels. The case of entrepreneurs, of course, was a different one. By late 1948, a mere breach of information to the effect that the Abbink Mission would recommend the maintenance of Correia e Castro's credit policies, while the commission's work was still under way, was enough to bring about a wave of protest in the press. The argumentation for it, which was often found in Brazilian entrepreneurs' economic thinking, was that inflation must be fought through production increases, which require credit expansion.

The most sophisticated exposition of this argument in those years was made by developmentalist economists then working at CNI's Economic Department in the first issue of Estudos Econômicos, in the earlier mentioned article that made a critical review of the Abbink Report. The article begins by offering a good summary of the Report and then proceeds to criticize it:

"The key idea in the Report is, that given the existence of a full employment situation in Brazil, the country's economic development can be achieved only by redirecting investments and/or through foreign capital inflow. There is no other alternative. In the prevailing circumstances, inflation as a means of mandatory capital accumulation would not represent an effective way to achieve real economic progress, as it would accentuate the economic disequilibrium and be detrimental to the standard of living.

The concept of full employment as applied to the analysis of Brazilian economy seems questionable to us. First of all, in order to understand that phenomenon in an underdeveloped economy such as ours, an indispensable distinction must be drawn between quantitative unemployment and qualitative or 'disguised' unemployment".<sup>6 2</sup>

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(62) "Resenha do Relatório Abbink", Estudos Econômicos, March 150, p. 186.

The article next points out that, given the existence of qualitative unemployment, the increase in investments must not view a situation of "quantitative full employment [which would include "underemployment"] as a limit, but may occur via productivity increases beyond that state of equilibrium, up to the point where the cost of transferring productive factors, after calculating the loss in productivity in the original sector, proves to be equal to its marginal productivity in the new sector. In other words, the 'optimum' full employment of resources in an underdeveloped economy like the Brazilian one would go beyond 'full' employment in a quantitative sense (...)"<sup>63</sup>

It would be both possible and desirable, therefore, to promote a displacement of real underused resources into investment activities, which in turn would require a "cautious investment quota that did not derive from savings", i.e., an anticipated investment rate above the anticipated savings rate (ex ante investment superior to ex ante savings). From the ex post point of view, one might foresee a readjustment of those two rates "without sacrificing consumption".<sup>64</sup>

To reach an investment rate above the ex ante savings rate it would be necessary to expand credit: "The policy of credit contention preconized in the Report is therefore contrary, in the current situation, to the goals of economic development, which rather call for an adequate expansion of credit aiming to a more fruitful employment of productive factors".<sup>65</sup>

The above analysis, as we can see, was identical to the one Arthur Lewis was to make two years later, i.e., the view that it is possible to promote capital formation via credit expansion without damaging the absolute consumption level, thanks to the availability of unlimited labor supplies. The head of the Brazilian section of the Abbink Mission, Octávio Gouveia de Bu-

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(63) "Resenha do Relatório Abbink", op.cit., p. 187.

(64) Idem, pp. 187-188.

(65) Ibid., p. 190.

lhões, replied to CNI's article but ignored the argumentation about disguised unemployment. He replied that the suggested ex post equilibrium between investments and savings would imply a reduction in consumption, given the full employment situation.<sup>66</sup> Another key point in Bulhões's reply was that CNI's Economic Department had misinterpreted the relation established by the Abbink Report between monetary stability and the policy of redirecting investments and attracting foreign capital:

"The Report therefore has no intention of asserting that the general price level must be kept stable so as to provide capital inflow and investment orientation. On the contrary, it draws attention to the convenience of absorbing foreign resources and disciplining investments as a way to achieve economic expansion without facing price increases".<sup>67</sup>

At the analytical level, the CNI vs. Abbink Report controversy was one of the most interesting highlights in the debate about inflation in those years. The other highlight was the discussion roused by a project for monetary legislation submitted by economist and House Representative Alde Sampaio. Sampaio was also the head of CNI's Economic Council and, perhaps for that reason, preferred to discuss his project at that agency before taking it to the Congress. His initiative, however, had a strictly personal character. In fact, one could hardly imagine that CNI would support such initiative had it been requested to do so.

The major point in Sampaio's project was that the Congress should stipulate, at five-year intervals, the amount of currency that should serve as the primary basis of the national circulating currency. The latter should be composed of a fixed quantum and a variable complement that would be employed (up to a maximum ceiling stipulated for the quinquennium) in accordance with the increase in the volume of transactions. The administration of this variable

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(66) Bulhões, O.G., À margem de um relatório, op.cit., pp. 17-18.

(67) Idem, p. 20.

complement, as well as technical guidance to handle it and to assist the Congress, should be provided by a Technical Monetary Council still to be created. As a transitory device the project suggested a policy of reconducting the exchange rate to its "real value" through a cruzeiro devaluation following a six-month period when two different exchange rates would be used. When once the exchange rate were brought to its normal level the Technical Monetary Council would regulate it on the basis of an index of the domestic price level (a national "pricegram" taking both gold and the dollar as a reference); from then onwards, the cruzeiro would be kept at its "real" parity level.

The project was the object of two emphatically unfavorable pronouncements submitted to the House of Representatives' Industry and Commerce Committee.<sup>6 8</sup> One of them was made by Daniel Faraco, who first of all expressed his scepticism as to the possibility of deciding upon an adequate price index for the calculation of parity and advised against the establishment of such an arbitrary decision in legal form. He also stated that the Council contemplated in the project would be a duplicate of the National Economic Council, with the added drawback that it would be a specialized agency, when in fact the major goal of economic policy was not monetary equilibrium but rather development. According to Faraco, monetary policies could not be enforced independently of developmental policies and should remain subordinate to the latter. A third important point in Faraco's criticism was his disagreement as to the double exchange rate device proposed, which he felt to be an inflationary measure and "not in keeping with Bretton Woods". In concluding his comments, Faraco objected to tying the action of the people responsible for the country's monetary policy to a law that would have a technical character.

Sampaio stood by his project. He agreed that the stipulation of an index was a difficult matter but claimed that this did not prevent the problem

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(68) Both the project and the two pronouncements were reprinted in RBE, June 1949, p. 137.



from having a technical solution. Above all, he defended himself against another of Faraco's criticisms, i.e., the charge that the project did not take into consideration either paper money or the income velocity of circulation of money. He pointed out that the "variable complement" to be stipulated by the Technical Monetary Council would have precisely the function of making up for fluctuations in that velocity.

The second unfavorable pronouncement came from Octávio Gouveia de Bulhões. His main objection was that the execution of a monetary policy subjected to the  $MV=PQ$  formula would be "too mechanical to guide a logical monetary policy". The flaw was said to lie in "attempting to give mechanical precision to the gauging of means of payment".<sup>69</sup> Bulhões developed his argumentation with the purpose of proving that complete monetary stabilization through the mere handling of the quantity of money would be unfeasible. In the first place, he explained that in the event of a price reduction there would be no way to preserve stability through monetary expansion, to which Alde Sampaio replied that his project concerned only inflationary situations and disregarded deflationary ones. Second, Bulhões pointed out that credit variation in accordance with the volume of transactions, as proposed in the project, would intensify inflation in boom periods and deflation in depressive ones: "thus, if we attempt to make the circulating currency accompany the movement of transactions, we shall end up offering too much money in times of high activity and too little money in phases of depression. In other words, we shall be promoting both inflation and deflation".<sup>70</sup> Sampaio replied to this argumentation by insisting that both the annual income growth rate and the income velocity of circulation of money could be taken to be constant for the purpose of enforcing a monetary policy.<sup>71</sup> The project seems to have been abandoned by its author after this debate.<sup>72</sup>

(69) Bulhões, O.G., "Parecer sobre o Projeto de Lei Monetária de Alde Sampaio", *RBE*, June 1949, p. 137.

(70) *Idem*, p. 135.

(71) *Ibid.*, pp. 134-135.

(72) One last basic aspect of Bulhões's Keynesian argumentation that was sup-

Except for the foregoing controversy and the divergence between CNI and the Abbink Report, the discussion about inflation was rather uninteresting at the analytical level while the structuralist thesis about inflation was still in its cradle at ECLA. The journal Conjuntura Econômica, then still following a developmentalist orientation and in a show of sympathy towards Vargas's government went as far as to characterize the 1951 price rise as a case of "growth-derived inflation", but advanced no further towards the structuralist interpretation.<sup>73</sup> Only one of the arguments that were to become part of ECLA's account of inflation was already fully assimilated in Brazil by that time: the claim that the deficit in the balance of payments of underdeveloped countries, even in times of normality in international trade, is not necessarily caused by inflation. This refers us to a topic that was typical of the economic debate during the period now under examination, i.e., the question of exchange rate policies.

In the final years of the decade of 1940 there was considerable pessimism in Brazil as to the possibility of a restoration of normality to international trade. San Thiago Dantas, for one, asserted that "the Bretton Woods scheme, after a lapse of just a few months, has become as archaic as the gold standard",<sup>74</sup> and the newspaper Diário de São Paulo voiced the opinion that "the IMF and the World Bank are two institutions that were born dead to the world".<sup>75</sup>

Such widespread views expressed the expectation that the "dollar shortage" would last for long. Neo-liberal economists did their best to fight this

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ported by Gudin (see article published in Revista Brasileira de Economia in the issue following the one that reprinted the Sampaio-Faraco-Bulhões debate) is a reference to the Graham Plan, which had been praised by Hayek and severely criticized by Keynes. Bulhões noted that the spirit of Sampaio's project resembled that of the Graham Plan, which Sampaio claimed not to be acquainted with. See Bulhões, "Parecer", op.cit., and Gudin's "Estabilização dos preços", RBE, September 1949, pp. 7-23.

(73) See Conjuntura Econômica, January 1952, p. 2.

(74) Dantas, S.T., "Depoimento sobre a crise moderna", D.E., March 1948, p. 52.

(75) Cf. news report "O que diz a imprensa", RBB, May 1949.

feeling. We have already referred to some conferences made by Haberler in Brazil to this effect. In co-operation with Jorge Kingston, Gudin reaffirmed his belief in the possibility of achieving equilibrium in the balance of payments and stated that the dollar shortage problem was a transitory and poorly managed one, and that inflation was the major cause of foreign deficits.<sup>76</sup> This used to be said by American delegations at every international meeting and it was reiterated at the Fifth Meeting of the Interamerican Trade and Production Council in Santos, SP, in April 1950. Several Latin American delegations attending the meeting challenged that thesis along ECLA's line of thought and asserted that, for all its correctness, such interpretation was a partial one.<sup>77</sup> The Latin American argumentation reminds us of a passage of the Economic Study for 1949, where Prebisch states that "as long as the import ratio is not readjusted whenever total income increases faster than exports (...) a tendency toward disequilibrium will be present (...) whether or not there is inflation".<sup>78</sup>

For that reason, according to the writings then published by ECLA, a permanent solution to foreign disequilibrium should encompass industrialization, specially if one bears in mind that the capacity to import goods that are indispensable to development is conditioned by several adverse factors that in no way depend upon monetary stabilization and the exchange rate policy. We have already listed such factors in our General Introduction: (a) the displacement of the cyclical center into the U.S., whose low import and export/GDP ratio reduces the positive impact of international economic growth upon peripheral economies; (b) the slow expansion of the international demand for food products and raw materials (Engel's law, etc.); (c) the abusive use of customs protectionism by advanced countries; (d) the deterioration in the

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(76) Gudin, E. and Kingston, J., "A taxa de equilíbrio do cruzeiro", RBE, December 1949, p. 18.

(77) Cf. Silveira, E., "Considerações sobre a V Reunião Plenária do Conselho Interamericano do Comércio e Produção", RBB, October 1950, pp. 53-56.

(78) ECLA, "Estudo Econômico 1949", RBE, March 1951, p. 19.

terms of trade, which works against countries that specialize in primary goods exports; and (e) the cyclical fluctuations of international trade.

As early as 1949, the expression "deficitary tendency in the balance of payments" was often found in Brazilian economic literature.<sup>79</sup> Vargas, as we have already noted, was to justify a policy of intensive industrialization via import substitution with the expression "chronic deficits in the balance of payments" in the "Programmatic Message" of the beginning of his governmental term.

The adoption of the anticipated import permit system in 1947 had provided the ideal background to generate a realization of the difficulty of adjusting basic import needs to the limitations of Brazilian import capacity. Even at the Congress, one of the most hotly debated issues was that of listing imports by order of essentiality. It is impossible to conceive of a more concrete way of discussing the problems of import capacity in the event of a shortage of foreign currency, as was the case just then.

The anticipated import permit system lasted as a provisional measure for nearly six years. It was introduced and maintained with widespread approval. The Commercial Policy Commission of the Araxá meeting, while stressing that the control over foreign trade must be viewed as a "regime of exception", recommended that such control be maintained so as to adjust the balance of payments and assure domestic market supply.<sup>80</sup> The President of the São Paulo Commercial Association, Décio Novais, another liberal thinker, added only a few qualifications such as that anticipated import permits must not be protectionist and must exclude exports, but he was equally led to accept the regime.<sup>81</sup>

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(79) See, for instance, an article by Carvalho, M.O., "Política cambial - Recursos cambiais", OEF, September 1949, pp. 31-38.

(80) See II Conferência das Classes Produtoras, Recomendações, op.cit., p.127.

(81) Décio Novais's inaugural speech at AESP, reprinted in D.E., February 1950, pp. 5-10.

In the list of alternatives to integral control the most hotly opposed measure was the exchange rate devaluation. There was a fear that it would intensify inflation and cause a deterioration in the terms of trade.<sup>82</sup> This was a largely majoritarian position and was the object of countless manifestations at the National Congress. From Correia e Castro to Lafer, all Finance Ministers of the period maintained that they would not devalue the cruzeiro. Until just before the suppression of the anticipated permit system and even in the throes of the foreign exchange crisis and amidst complaints about the onus and corruption of license-granting, which were common in 1952, integral devaluation continued to be seen as the last measure to recommend. It deserved unfavorable manifestations, as we have seen, from where they were least expected to come, i.e., from the Brazilian Rural Society. Throughout those years the defense of a cruzeiro devaluation came only from the U.S.A., in the person of Senator Gilette, who was hostilized in Brazil for his campaign against the prices of Brazilian coffee.

Between integral control over imports and an integral devaluation there emerged, as in other countries, an abundance of proposals. The one that came closest to the policy then in force was that of "compensatory agios", which economist Gileno de Carli discussed at CNI's Economic Council with the support of another of the agency's counselors, economist Luiz de Souza Gomes.<sup>83</sup> This measure, whose adoption was attempted between 1949 and 1951, consisted of making up for the export difficulties of those products that were more severely affected by the growing cruzeiro valuation (which received the curious designation of "grievous products") by linking their exports to certain imports, so that importers should pay exporters a previously agreed upon agio. Gileno de Carli's proposal consisted of rationalizing and generalizing those operations through the creation of a "Chamber of Compensations". The obvious

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(82) For additional evidence in this respect see the news section "O que diz a imprensa" in several issues of RBE for 1948 and 1949.

(83) See "Anais do Conselho Econômico da CNI", 1949.

operational difficulties and objective restrictions of such associated operations soon invited general disapproval within the country, this accounting for their prompt elimination.

The most widely discussed intermediary alternative between integral control and integral devaluation was that of double and multiple exchange rates. Significantly enough, it was Professor Eugênio Gudin who introduced the proposal into the country in early 1948. In the following year, in an article written in co-operation with Kingston, to which we have already referred, he said that "one could hardly come upon a more favorable situation than the current one for the employment of the multiple exchange rate system, the present dollar rate being maintained (and perhaps even reduced by 10% on behalf of the state) for both coffee exports and the import of primary commodities with no exchange rate reduction (except for gasoline), and a new rate of, say, Cr\$26.00 being created for the purchase of foreign currency for several exports and for the import of non-essential goods, tourism, etc. A third intermediary rate might possibly be created to stimulate the import of foreign capital and to remit the corresponding profits (which would amount to an increase of approximately 5% in certain public service charges). By the same token, other measures would be adopted in the future to reduce the decalage between the rates in force and the balanced rate until such time as the latter could be adopted as a single rate, either at the level we have indicated or as might be suggested by the conditions prevailing at the time".<sup>84</sup> One of Gudin's fellow workers at FGV, economist Richard Lewinsohn, hastened to disagree with him no sooner than he had expressed his idea in 1948. Lewinsohn argued that the multiple exchange rate system would imperil the currency's major quality, which is its function as a value unifier, and claimed that "when-ever there have been any attempts to destroy or shake this foundation of mone-

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(84) Gudin, E. and Kingston, J., "A taxa de equilíbrio...", op.cit., pp. 25-26.

tary equilibrium the consequences have been disastrous. The experience of France, Italy and Greece, among others, prove that the system's final unavoidable outcome is one and the same: domestic prices go up and exports become difficult".<sup>85</sup>

Economist Roberto Pinto de Souza also had his article in support of multiple exchange rates immediately challenged, for the same basic reason pointed out by Lewinsohn: in the opinion of the editors of the newspaper O Estado de São Paulo, the exchange rate system proposed by Souza would eventually become untenable and would soon lead into a full devaluation, which was precisely the one extreme measure one sought to avoid.<sup>86</sup>

A proposal for partial devaluations through the adoption of a double exchange rate system flourished in the country in the years 1951 and 1952. Its major forum of debates was the House of Representatives. It is curious to note that the debate was started at the Congress in those years as a result of the attention paid to a secondary issue, i.e., the control over the black market, which was basically linked to tourism. In May 1951, House Representative Herbert Levy, taking advantage of the general outcry against the growth of that market, which was stimulated by the exchange rate valuation and the scarcity of foreign currencies, submitted a project for the creation of two new markets alongside the official one, for the purpose of putting an end to the black market. These were a free market for tourism and a capital market, both being boosted with up to two percent and up to thirteen percent of the export revenues, respectively. A month later, House Representative Magalhães Pinto gave his support to this project, but introduced an amendment whereby the two markets should merge into a single one, the latter receiving up to ten percent of export revenues. In August there came a project submitted

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(85) Lewinsohn, R., "Taxas múltiplas de câmbio", D.E., May 1948, pp. 40-45.

(86) See Souza, R.P., "Paridade cambial do cruzeiro na presente conjuntura econômica", D.E., December 1949, pp. 69-75, and an article from the January 13, 1949 issue of O Estado de São Paulo reprinted in RBB, February 1949, pp. 14-15.

by the Executive Power, which resembled Magalhães Pinto's amendment and proposed the creation of a single market aside the official one, viz., a "free market" designed to handle capital movement and tourism. House Representative Adolfo Gentil next submitted another amendment proposing that part of the capital movement be maintained within the official market. House Representative Daniel Faraco, in turn, proposed an amendment to the Executive Power's project introducing some substantial alterations into the exchange rate reform. His amendment first stipulated that part of the exports of "grievous products" should be transferred into the free market, which meant that the currency's partial devaluation would be extended to goods and services. (A project passed in early 1953 incorporated this amendment, along with the decision that part of the imports be equally transferred into that market). Second, Faraco's amendment proposed that imports made by foreign companies be exempted from exchange rate coverage — a measure that was to be enforced only in 1955 under the terms of SUMOC's Instruction no. 113.

The year 1952 was a fertile one as regards articles and pronouncements about the exchange rate reform, centering around the discussions then going on at the Congress. Daniel Faraco said that, although he was not enthusiastic about the proposed project, he felt it to be a lesser evil, for as Brazilian economy was not prepared "to absorb the inflationary impact of an integral devaluation", the solution was to try and achieve equilibrium in the balance of payments through "partial readjustments" while one waited for "better times to come".<sup>87</sup> Bulhões also favored the project's approval and took the opportunity to introduce his usual qualifications: "should the free market be adopted and properly used, and especially if the Government continues to fight inflation systematically through its policy of balanced budgets, restrained credit, and rigorously selected investments, without attempting as it has to

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(87) See the series of pronouncements about the exchange rate reform published in OEF, October 1952, p. 52.



handle all undertakings at the same time and to take onto itself a financial responsibility that could be left to private parties, there is no doubt we shall attain good results".<sup>88</sup> House Representative Adolfo Gentil, hoping that the free market would have a strong appeal to foreign capital, enthusiastically stated that, in terms of its economic significance, that measure was equivalent to a new Opening of Brazilian Harbours.<sup>89</sup> Minister Lafer cherished similar expectations: "when once the free market has been created, large sums will be sent to Brazil".<sup>90</sup> Economist Hamilton Prado, while not disapproving of the project, drew attention to the risk that it would allow companies to bring in their capital through the free market and import equipment and raw materials at a much lower exchange rate than the one prevailing in the official market, thereby profiting from the substantial difference between the two of them.<sup>91</sup> Nationalist House Representative Euzébio Rocha, in turn, went further still and expressed his complete objection to the project. According to Rocha, foreign capital was no more than "a factor of hindrance in our full economic development". The hope of attracting it was claimed to induce one into the error of paving the way to an integral cruzeiro devaluation, "with an unpredictable aggravation of our situation".<sup>92</sup> Roberto Pinto de Souza, who no longer advocated the multiple exchange rate system, but preferred compensatory agios for "grievous products", challenged José Maria Whitaker and other adherents to the proposal then being advanced by raising three arguments against the devaluation: the deterioration in the terms of trade, the inflationary impact, and the low probability that the measure would stimulate ~~imports~~ exports, given the inelasticity in the supply of primary goods.<sup>93</sup>

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(88) OF, October 1952, p. 49.

(89) *Idem*, pp. 52-53.

(90) *Ibid.*, p. 53.

(91) *Ibid.*, p. 50.

(92) *Ibid.*, p. 54.

(93) Souza, R.P., "Desvalorização do cruzeiro e câmbio livre", D.E., December 1952, pp. 60-66.

In concluding, it is worthwhile noting that throughout that discussion only in the years 1947 and 1948 do we find any proposals for devaluation motivated by protectionist objectives. After Roberto Simonsen's death, only Humberto Bastos continued to advocate that measure for a while. As already pointed out, there was a natural reduction of industrialists' concerns about protectionism inasmuch as the shortage of foreign currencies and the prevailing licensing system brilliantly performed a protectionist role. There were, of course, a number of recommendations along protectionist lines on the part of the entrepreneurs assembled in Araxá, who proposed a comprehensive reform in customs tariffs;<sup>94</sup> also, once in a while there appeared some article or other in defense of protectionism. These were, however, entirely secondary events in the economic debate of the period.

A result of the loss of significance of protectionist claims was that this topic ceased to be a major item in the nationalist discourse in Brazil. In its place there emerged with ever increasing importance the question of profit remittances.

vi. The presence of nationalism (and the absence of distributism)

The two great political and ideological topics of the economic debate, i.e., nationalism and distributive questions, weighed differently upon the period's economic thought. Nationalism was going through its most expressive phase and was activated, first of all, by the discussions about the solution to be given to the impasse regarding oil exploration and industrialization. Inversely, the discussion of social issues was going through a recessive phase as compared to the immediate post-war period, reflecting the conservative political climate that prevailed in the country in those years of repression and anti-communist fanaticism, specially during Dutra's government. The relative liberalization that took place during Vargas's second presidential term allow-

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(94) See II Conferência das Classes Produtoras, Recomendações, op.cit., pp. 109-111.

ed for only a timid resurgence of the discussions about distributive problems. It is helpful for us to postpone the reference to the debate about these problems to the forthcoming section (covering the period 1953/1955) and to concentrate our attention at this point solely on the "hot" political-ideological issue of the period, i.e., nationalism.

Progressing within the narrow limits of our study we shall now offer a brief review of the presence of those elements in the period's economic thought. Let us begin with the questions concerning foreign capital and nationalism.

There were two major discussions about the subject in the period 1948/1952. First, the control over natural resources by national capital was the object of an ebullient controversy nurtured by the armed forces' nationalist sectors. Second, under the leadership of technical experts and entrepreneurs interested in attracting foreign capital several discussions were conducted as to the treatment the latter should be given.

The nationalist debate about oil has already been the object of some excellent works and therefore dispenses with further considerations.<sup>95</sup> It centered around the opposition to the Oil Statutes, which opened both oil research and exploration to foreign capital. The Brazilian exponents of that proposal were, as we know, Odilon Braga and General Juarez Távora. It is interesting to note that soon after the forwarding of the Oil Statutes to the Parliament Távora condemned the Brazilian government's agreement (with the Congress' approval) to a loan to be made by the World Bank to the Light and Power Company. In so doing he attempted to build the image that he was at

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(95) The major works on the subject are: Cohn, G., Petróleo e nacionalismo, São Paulo, Diffel, 1968; Wirth, J., The politics of Brazilian development, 1930-1950, Stanford, Ill., Stanford University Press, 1969; Martin, L., Pouvoir et développement économique, Paris, Ec. Anthropos, 1976; and Pereira, J.S., Petróleo, energia elétrica, siderurgia: A luta pela emancipação, um depoimento sobre a política de Vargas (Medeiros Lima, ed.), Rio de Janeiro, Paz e Terra, 1975.

bottom a nationalist in search for a solution to the problem of oil production, an undertaking that national capital, be it private or state-owned, would hardly be able to carry out, according to those who defended foreign capital participation. As we know, Horta Barbosa initiated a widespread nationalist campaign in defense of oil, including numerous conferences, articles and public pronouncements by both military officers and civilians.

One of the points most often stressed by nationalists under Barbosa's leadership was that the country had the resources required for oil exploration and that the latter should be financed, as in Argentina, by the high profitability of refining activities. Jesus Soares Pereira, for example, headed one of his articles on this subject with the title "We have money for oil".<sup>96</sup> At the National Congress this point of view was supported, for instance, by socialist House Representative Hermes Lima, who along with former President Arthur Bernardes played a prominent role in the nationalist defense of oil within the sphere of parliament.

The nationalist campaign extended to other mineral resources. Particularly in the years 1949 to 1951, uranium, torium, and monazitic sand were the object of special attention. In Revista do Clube Militar, the highlights were the articles written by General Raimundo Sampaio, such as one he titled "The underground assault against uranium in Brazil".<sup>97</sup> As a by-product of that nationalist campaign there was an increased awareness of the technical and scientific difficulties involved in nuclear physics, which resulted in the creation of the National Research Council in late 1950, its assignments soon being generalized to the group of disciplines in science and technology.

From the point of view of our particular concern, more important than to refer to these widely known facts is to draw attention to the two ideolo-

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(96) Article published in O Mês Econômico e Financeiro, August 1948.

(97) This article appeared in the August 1950 issue of Revista do Clube Militar.

gies that were reinforced by the nationalist campaign surrounding natural resources. First, the conception was spread that most of the companies in this sector must be state-owned, given the weakness of national private capital. Second, as already pointed out, developmentalism was reinforced. The defense of natural resources raised a question, i.e., what would be the ultimate purpose of the preservation of and national control over natural resources? The answer to it was found, for instance, in the nationalist writings published by Revista do Clube Militar: resource utilization must be subordinated to an economic development policy, which is the royal path to "national economic emancipation".

The entrepreneurs gathered in Araxá, who were generally receptive to foreign capital, were tactfully omissive in regard to the oil issue in the text conveying their final recommendations. There possibly was a heated debate in this respect among the conference's attendants, however, as we can infer from an article by a journalist who covered that meeting and who mentioned the occurrence of divergences in the discussion of that matter between the President of FIESP and the President of AESP.<sup>98</sup> Unfortunately, as there are no annals of the Araxá meeting, we could not find additional evidence of such divergences. Significantly enough, all that is conveyed in the document containing the Araxá recommendations is a motion "claiming for an urgent solution to the problem of national oil", with the sole recommendation that both the state and private capital, whether national or foreign, be encouraged to build oil refineries. The document says nothing about foreign capital in oil research and exploration.<sup>99</sup>

In fact, the Araxá Conference went as far as to demonstrate adherence to the principle preconized by Horta Barbosa since the 1930s, in recommending that "the largest possible amount of crude oil be refined in the country", on

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(98) This article appeared in the August 1949 issue of OEF.

(99) II Conferência das Classes Produtoras, Recomendações, op.cit., p. 72.

the grounds that it would thus be possible to intensify oil research and exploration "so as to enable the country to become independent in regard to this raw material, as far as is allowed by its resources".<sup>100</sup> However, the Araxá Recommendations shirked adhering to Barbosa's proposal to place the sector under governmental control.

With reference to the question of electric power, on the other hand, we find total acceptance of foreign capital participation. The final document prepared in Araxá proposed the elimination of the "historical cost" criterion for the calculation of service charges for electricity — a question that, as we have seen, was a basic theme in the controversy between nationalists and those who defended the foreign companies then supplying those services. The Electric Power Subcommittee of the Abbink Mission, despite making no reference to the "historical cost" principle, argued for a revision of the Water Code (which included that principle) on the grounds that this would allow, through an increase in service charges, both the capitalization and expansion of companies operating in that sector. It also emphasized that "one must rely chiefly on private enterprises for the development of electric power in Brazil".<sup>101</sup>

The historical cost issue does not seem to have been the object of many debates during that period. A subtle article by nationalist Américo Barbosa de Oliveira in Conjuntura Econômica, with due discretion and offering no comments, supplied data about the profitability of the companies belonging to the two large foreign holdings in the electric power sector, which had never been published until then on the excuse that their profit and loss results were calculated in either dollars or pounds.<sup>102</sup> The news article shows that

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(100) II Conferência..., Recomendações, op.cit., p. 71.

(101) Bulhões, O.G., À margem de um relatório, op.cit., p. 236.

(102) See Conjuntura Econômica, September 1949, pp. 12-13. The article is not signed, but its authorship was confirmed by Américo Barbosa de Oliveira, whom I thank for having granted me an interview in October 1980.

the five companies in both groups had a good profitability and that it was far superior to that of the sixty-five national companies operating in the sector (which had only a thirty percent share of the market). The major objective of the article's author, who was one of the most outstanding advocates of the idea of placing that sector under state control, was to fight the argumentation that, given the historical cost system, the prevailing service charges for power supply were not profitable enough, thereby hindering and discouraging the expansion of the sector. Barbosa de Oliveira, like other nationalists, felt that the public service infrastructure, particularly in the energy sector, should not be subordinate to decisions made by foreign capital, whose sole interest lay in the remittance of huge profits abroad.

Parallel to the nationalist debate about natural resources and giving more or less emphasis to the question of the selection of sectors to be opened to foreign capital participation there developed a debate about the general treatment to be given to that capital. On the one hand there were those who expressed their wish and hope to attract huge amounts of foreign capital; on the other, there were those who were either sceptical as to this possibility or simply felt that that prospect, besides being deceitful, was a reactionary one, as it went against the one single solution for the expansion of sectors that were strategic for Brazilian development, i.e., state ownership.

The Araxá Conference recommended some measures to attract foreign capital, in particular the assurance of "the remittance of profits and amortization quotas" until the exchange rate situation allowed for "complete freedom".<sup>103</sup> As became customary at the time, the problem was linked to the scarcity of savings and, above all, the shortage of foreign currencies. The Araxá document mentions "the need to attract private foreign capital into our country so as to direct it to those sectors where it can best assist our economic de-

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(103) II Conferência..., Recomendações, op.cit., p. 96.

velopment and especially contribute to the equilibrium of our balance of payments".<sup>104</sup> However, the Araxá entrepreneurs were zealous as to the defense of their markets: "May the inflow of the so-called favored capital be encouraged and the inflow of non-favored capital, as represented by consumption goods, be avoided to the largest possible extent, whenever its amount and worth are liable to shake the structure of national production with any significant impact".<sup>105</sup>

The Araxá document paid special attention to Truman's Point IV and conveyed the feeling that one expected such American resolution to imply an extension of credit by official institutions. One seemed unaware that, in fact, the philosophy expressed in Point IV was merely that the U.S.A. acknowledged the developmental possibilities of underdeveloped countries and therefore agreed to offer a modest technical support to private investments. The Araxá Recommendations were:

- "1. that the Central Commission beseech the Government to conclude the agreements that will lead to securing the co-operation promised in the aforementioned Point IV;
2. that the conversations to be held stress the fact that such agreements will represent a fair compensation to Brazil for the inconveniences suffered in complying with the Marshall Plan in respect to Europe, especially taking into account the expansion of African colonial economy, which was made possible by the resources of the Marshall Plan through a competition with Brazilian products in the international market".<sup>106</sup>

The Abbink Mission's work went deep into the examination of the question of attracting private foreign capital from the perspective of encouraging its participation in national economy. A few steps were suggested towards that end. One of them was the suppression of the last remnants of double tax-

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(104) II Conferência..., Recomendações, op.cit., p. 96.

(105) Idem, p. 119. See the meaning of the expression "favored capital" some paragraphs later.

(106) Idem, pp. 164-165.



ation from the legislation of capital-exporting countries. In an article written in 1952 where he attacked "two nationalist manifestations stemming from the transformation of means into ends" (i.e., oil and the remittance of profits), Bulhões expressed his satisfaction at the changes that had taken place in American legislation. He added only a suggestion that that legislation give the eventual tax exemptions granted by recipient countries to American companies the same treatment it gave to the tax payments made by those companies, i.e., that they be equally deducted from the income tax payable in the U.S.A.<sup>107</sup>

The other recommendations in the Abbink Report concerned the transfer of capital. A minor suggestion was that an agreement assuring profit remittances and capital repatriation be drawn up and signed by the Brazilian and American governments.<sup>108</sup> In the introductory section of the Brazilian edition of the Report Bulhões suggested the establishment of a joint fund to guarantee profit transfers.<sup>109</sup> This proposal seems to have found little receptiveness within the American government, much to the chagrin of the Brazilians who supported it.

The two other proposals concerning profit remittances were more far-reaching. One of them came from the Investment Subcommittee, whose relator was San Thiago Dantas. It suggested that investments be classified in two categories: "regular" and "favored" investments. The latter should include those that might increase the availability of foreign currency (via either exports or import substitution) or that could be channelled to applications viewed as priorities for economic development. The Subcommittee proposed that the government stimulate "favored" investments and set higher limits, as compared to the legislation in force, for the remittance of profits, as well as shorter

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(107) Bulhões, O.G., "Economia e nacionalismo", RBE, March 1952, pp. 91-109.

(108) Bulhões, O.G., À margem de um relatório, op.cit., pp. 326-328.

(109) Idem, pp. 28-32.

terms for capital repatriation. It also proposed reductions or tax exemptions except for the income tax.<sup>110</sup>

The report prepared by the Investment Subcommittee was severely criticized by one of the latter's members, nationalist Américo Barbosa de Oliveira, whose views were in the minority regarding the Subcommittee's conclusions. He argued that in the twentieth century, unlike the nineteenth, "the workings of the world capital market must be viewed from a double perspective: that of small units subjected to the general principles of competition and that of the large economic and political units (trusts and cartels), which disclose a far wider view than mere interest rates (...). The theory that investments are made where capital finds a 'more rewarding remuneration' is now totally unsatisfactory."<sup>111</sup> Barbosa de Oliveira next stated that "the immigration of American capital will have to be conducted in accordance with the interests of American economy, which are opposed to those of less developed countries."<sup>112</sup> He further drew attention to the possibility that, should a large flow of American capital be directed to Brazil, there was a risk that the balance of payments would become still more unbalanced than it already was by virtue of financial remittances.

According to Barbosa de Oliveira, the proposal made by Professor San Thiago Dantas was inadequate also for not taking into account the U.S.A.'s need to make investments abroad so as to maintain a reasonable level of domestic employment. Moreover, "the principles on which the proposal is based are untenable", for favoring is likely "to go beyond the point where the benefits reaped compensate for the favors granted, with a resulting de-capital-

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(110) The report of the Abbink Mission's Investment Subcommittee was written by San Thiago Dantas and reprinted in D.E., January 1950. By 1952 the National Economic Council prepared a draft proposal for a project distinguishing three classes of investments: "special", "favored", and "regular" investments. The proposal was not carried out. See RCNE, May 1952, pp. 27-29.

(111) Barbosa de Oliveira, A., "Os investimentos internacionais", D.E., November 1949, p. 38.

(112) Idem, p. 39.

ization of the country, and not its enrichment".<sup>113</sup>

Barbosa de Oliveira was specially keen on criticizing American risk capital. He was less opposed to direct European investments, but felt that the one global solution for the need to rely on foreign capital must be the obtention of loans. Even so, those borrowings must be subordinated to a far-reaching plan so as to be allocated to select sectors. Furthermore, the investment initiative in those sectors of activity to which the loans should be assigned must in general be incumbent upon the state:

"As the development of such activities will only exceptionally be of any interest to foreign capitalist groups and as private initiative in underdeveloped countries has been rather shy since large concentrations (trusts and cartels) were generalized, it is incumbent upon the state to take this initiative by setting up specific organizations and using foreign resources by means of loans, as was done in the case of [the] Volta Redonda [steel mill]".<sup>114</sup>

The most ambitious proposal in the Abbink Report in regard to the question of the treatment to be given to foreign capital was the modification of Decree-law 9025 of 1946, which determined that the annual remittance of profits could reach up to eight percent of the initial capital, and that capital repatriation could reach 20% p.a. Bank of Brazil's Exchange Department, disregarding the terms of the law, had passed a regulation authorizing remittances of up to 8% of the sum resulting from the addition of initial capital and reinvested reserves. The Abbink Report suggested that "such liberal and far-sighted policy be maintained and that, if possible, Decree-law 9025 be altered to allow this more far-reaching criterion for profit remittances to be incorporated into the law".<sup>115</sup>

Getúlio Vargas did not feel that the criterion adopted was a "far-

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(113) Barbosa de Oliveira, A., "Os investimentos internacionais", op.cit., p. 40.

(114) Ibid.

(115) Bulhões, O.G., À margem de um relatório, op.cit., p. 323.

sighted" one. In his famous New Year's speech in late 1951 he made the calculations required to determine what that policy meant in terms of an illegal addition to the registered foreign capital for the purpose of profit remittances, and concluded that over thirty percent of the remittances effected between 1947 and 1951 went against the terms of the law. Vargas's words are widely known to this day:

"Behind the scenes of public administration the government has succeeded in gradually uncovering, with not a little difficulty, a criminal network that had been woven during the last five years against the Mother Country's economy, wealth, and independence. (...) Neither in this country's economic history, nor perhaps in that of any independent nation am I informed of any such example of the worst possible plundering: one that has been based upon a regulation passed by an official credit institution in violation of an express legal determination".<sup>116</sup>

There was ample debate about the speech. Standing out among the arguments then heard was one stating that it might cause an interruption in the entire process of securing loans abroad, which the government itself used to boast as one of its achievements, and that it would create an unfavorable climate for foreign investments. What criticisms there were, however, could only be addressed against the tone of Vargas's speech. There was, first of all, an irreproachable point in his statements, i.e., the claim that a mere administrative regulation was being given more power than the law itself. Secondly, one need only compare Decree-law 9025, which Vargas aimed to enforce, with the legislation of other countries to see that it was liberal enough. And thirdly, the government had already forwarded to the Congress a project for the creation of a free market for capital transfers whereby the legal provisions limiting remittances and capital repatriation would become obsolete. To be on the safe side, shortly after the New Year's protest and referring to

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(116) Vargas, G., O governo trabalhista..., op.cit., vol. II, pp. 68 and 70.

a decree he had just passed in confirmation of Law no. 9025 (Decree no. 30.363 of January 3, 1952), Vargas thus addressed the National Congress in another message:

"It must be stressed that the governmental act was neither intended to show hostility towards legitimate foreign investments nor to disregard the contribution they have offered to some sectors in national economic development. Quite unwarranted, therefore, are the malevolent interpretations of those who wish to deviate new foreign investments from Brazil — precisely those for whom the newly adopted measures aim to assure conditions of reasonable remuneration and facilitate transfers that are compatible with our foreign currency budget".<sup>117</sup>

The paramount question suggested by Vargas's former speech concerns its radically nationalist tone, which stood in sharp contrast with the President's courting of international banks, entrepreneurs, and conservative politicians. The answer to it is beyond the scope of the present work and should be sought in the studies about political history and in the analysis of populism. As far as we are concerned, this episode deserves special attention in that it may be viewed as a landmark in Brazilian economic thought: from then onwards, the topic of "profit remittances" was to feature prominently in the debate about economic development and was to occupy a position in the "anti-imperialistic" argumentation that, until just a few years earlier, had been occupied by the topic of "protectionism".

### 2.3. Economic Thought in the Phase of Liberal Resurgence and Developmentalist Reaffirmation: 1953/1955

#### i. Economic thought, economic conjuncture, and political conjuncture

The developmentalist economic thought originating in the 1930s resisted the liberal ideology of the immediate post-war period (1945/1947) and con-

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(117) Vargas, G., "Mensagem ao Congresso Nacional por ocasião da abertura da Sessão Legislativa de 1952", in O governo trabalhista..., op.cit., vol. II, p. 247.

tinued to mature in the following five-year period (1948/1952). During the triennium 1953/1955, it reacted firmly to a close liberal attack and reaffirmed its major principles. In the very confrontation between neo-liberalism and developmentalism in those years we may detect a higher level of maturity in the debate about planned industrialization. At that point, unlike the mid-1940s, what was under discussion was no longer the validity of an economic policy to support industrialization; the major debate became that of the pace the government must set for urban industrial development. This debate was prolonged into the discussions about the degree of tolerance admissible for monetary and foreign exchange disequilibria generated in the process under way, as well as about the relationship among state intervention, the overcoming of balance-of-payment imbalances, and the continuity of development.

From the point of view of our analysis, therefore, the most outstanding characteristic of that period is the level of maturity attained by developmentalism. Eugênio Gudin's word was both taken heed of and felt to be powerful when the liberal master spoke of monetary stabilization and reduction of state intervention, but it was anachronic where he insisted on the idea that it is a mistake to connect agriculture and industry to wealth.<sup>1</sup> The threat represented by that type of discourse against the developmentalist project became more insignificant by the day.

The analyses which opposed the proposal for industrialization were given careful replies.<sup>2</sup> There was also an improvement of the analyses legitimizing the industrialization project, their highlight being ECLA's work.

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(1) See, for example, Gudin, E., "Produtividade", RBE, September 1954, pp. 21-26.

(2) For example, Djacir Menezes still showed hostility in the late 1950s towards the liberal conferences made by Viner in Rio de Janeiro (Menezes, D., "Teses e antíteses", D.E., September 1952, pp. 82-85). Menezes himself, in turn, was criticized by another developmentalist author, Juvenal Osório Gomes, on the strength of the former's mistake in stating, in his Estudo de sociologia e economia, that men must be rooted to the land by technical progress. Gomes hastened to remind Menezes that technical progress in the countryside brings about as an inevitable consequence the liberation of manpower, and not its fixation, given the slow expansion in

The importance of that analytical legitimation, however, was somewhat reduced as compared to the weight of facts. It was patently clear to everyone in 1953 — even to some of the more sceptical and conservative economists — that a profound transformation was under way in Brazilian economy and society in the wake of an industrialization process that, for over a decade, had been attaining expansion rates above nine percent per annum (save for the years 1945, 1947 and 1952, during which the growth rate was around five percent p.a.). With the help of an increasing amount of statistical data that were ever more widely diffused, as well as of speeches made by administrative officials and developmentalist agencies like ECLA and CNI, the country's intellectual, technical and political elites were finally becoming aware of the reality of that transformation. That perception was reinforced by the industrial sector's performance in the period 1953/1955: even considering the economy's relative retraction in 1953, the average industrial output growth rate was approximate-

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the demand for agricultural products (see Gomes, J.O., RBE, January-March 1955, pp. 53-54).

In regard to this crucial question, an argument that was soundly established in that period was that of the relative advantage of allocating underemployed labor even to activities with no competitive power vis à vis production in industrialized countries. ECLA's articles giving analytical improvement to that argumentation were being widely assimilated throughout the country. Gudín, however, continued to disregard the new argumentation and again insinuated that developmentalists were insisting upon using Manoilescu's thesis to build up a misguided defense of industry's superiority over agriculture (see Gudín, E., "Produtividade", RBE, September 1954, pp. 22-24). This insinuation was due to the fact that CNI had arranged for a translation of the book written by that Rumanian author in the decade of 1930 (see section 3.1, item ii, note no. 16 of this work). The reply offered by CNI's technical staff in 1954, elaborated by João Paulo de Almeida Magalhães and Knaack de Souza, was an objective one: the authors analyzed the question along the lines adopted by Prebisch and ECLA and totally disregarded Manoilescu, as CNI had already been doing for over a decade. Their argumentation was that there was a virtually non-existent opportunity cost in the utilization of a labor force that, given the slowness of the expansion of international agricultural demand, was either underemployed or unemployed. Hence the justification for industry's absorption of that labor even at lower productivity levels than those found in advanced countries, as the outcome of this would be a raise in the national economic system's average productivity level. (The criticisms made by Magalhães and Knaack de Souza were reprinted in Economica Brasileira, April-June 1955, pp. 126-128).

ly 9.5%. To judge from the economic literature of the time, that realization became sharper and penetrated economic analyses, dominating the debates about the economy, as Vargas's second presidential term followed its course. As we have seen, upon Vargas's election the developmentalist ideology had reached the government itself and began to disseminate throughout both old and new institutions of federal public administration. We should note that several of the major steps in the proposal for the state's conduction of the developmental process had finally been taken early in the triennium we are concerned with in this section: the production of steel grew vigorously at CSN; the creation of Petrobrás had been clearly defined, and several governmental funds (via special taxes) linked to infrastructural investments had either been created or were being established. A sole tax upon energetic consumption had been instituted, and the National Electrification Fund was about to receive a definition from the Congress. Moreover, the Fund for Economic Reequipment and BNDE had been created, and last but not least, exchange rate policies were essentially subordinated to the import requirements of industrial equipment and raw materials, whose priority was surpassed only by products that were indispensable for both production and current consumption, such as wheat and oil.

The realization of the meaning of the process then under way was simultaneous to a generalized acceptance of the fact that the country was going through an economic crisis associated to problems with inflation and the balance of payments. There were, to be sure, economic reasons for monetary and foreign exchange problems to be perceived to represent a crisis. But there also were, above all else, political reasons.

Three basic economic difficulties that had long been discussed in the country suffered an intensification already as of mid-1952. In the first place, the indices of cost-of-living increases in large urban centers were soaring up (average rates of 16% in 1952/1953 and 22% in 1954 at the Federal District), despite the projects for monetary stabilization that marked the entire Vargas government, first with Minister Lafer (without support from the



President of Bank of Brazil, Ricardo Jaffet), and later with Minister Aranha (supported by Bank of Brazil's President, Marcos de Souza Dantas). Second and notwithstanding the sharp rise in the price of coffee, there was a gigantic deficit in the balance of payments in both 1951 and 1952, revealing a substantial insufficiency of import capacity as related to the requirements of the developmental process. This served to confirm and aggravate the foreign exchange crisis of the second half of the 1940s, which the improvement in the terms of trade and the growing normalization of European commerce had momentarily given the impression of being able to attenuate or even eliminate.

Thirdly, the electric power crisis had reached its climax in the country. Ironically enough, the world conference about electric power organized by the U.N. in 1953 and held in the city of Petrópolis, RJ, had to be interrupted for a few hours precisely owing to the problem that had been affecting productivity throughout the country: a power failure. At the same time, the rise in the prices of agricultural products for the domestic market drew attention to the other major infrastructural problem of Brazilian economy, viz., the inadequacy of the means of transportation. In a display of pointed wit, the Minister of Agriculture opened his conference at the Brazilian Rural Society in 1953 with the remark that "Brazil may not be an essentially agricultural country, but it essentially remote".<sup>3</sup> Statistical data on agricultural output showed a remarkable expansion in the production of food items for the domestic market (as compared to a stagnation in the production geared to exports) and pointed to the transportation, storage and commercialization system as the cause of product price increases.

The debate about such economic problems was both stimulated and intensified by a political conjuncture that explored those topics as an element in the political and ideological attacks against Vargas's government — and in the reaction to those attacks, to be sure.

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(3) Cf. RBB, May 1953, p. 19.

The evidence of the political difficulties of Vargas's government is well known: they sprang chiefly from UDN's systematic and virulent civil opposition. The records show, for instance, a number of scandals around charges of corruption and inefficiency within federal administration agencies (CEXIM, COFAP, etc.), and also around the blows dealt against what was referred to as the "socializing tendency" of the economic policies then in force (including, in this case, a claim for the extinction of BNDE and even CNE, an agency whose ideology was contrary to state control practices). Still more important, the more active UDN members made good use of the military dissatisfaction at João Goulart's laboristic policies and of events like the "João das Neves denunciation"<sup>4</sup> and the assault against Carlos Lacerda so as to stir up a mobilization for a coup d'état.<sup>5</sup> The military threat had been present since 1952, when the conservative right wing got organized to defeat nationalists at the Military Club's elections, in a move that coincided with the marginalization of leftist military officers within the armed forces. This movement may be interpreted as an indication that the political watch over Vargas's government by military officers was to be a close one. In August 1954, the fraction of UDN members advocating a coup d'état under Carlos Lacerda's leadership finally succeeded in mobilizing radical leaders within the armed forces towards overthrowing the President.

The discussion about the political instability of Vargas's government, notwithstanding the foregoing evidence, is a chapter of Brazilian history that

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- (4) The "João das Neves denunciation" was a declaration made by that former Foreign Affairs Minister of Vargas's government to the effect that a secret agreement had been made between Peron and Vargas to form, in co-operation with Chile, a triple alliance of nationalist governments not aligned with the U.S.A. The denunciation referred to a speech made by Peron, in which the Argentine President was said to have been indiscreet enough to mention the agreement. The Argentine Embassy in Rio de Janeiro hastened to refute both the occurrence of that speech and the agreement itself.
- (5) The assault against Carlos Lacerda, at which Major Rubens Vaz was killed, had been promoted by Vargas's own body-guard without the President's awareness. The assault triggered the crisis that led to the President's suicide.

has only just begun to be examined in greater depth.<sup>6</sup> The key to understand the political crisis may possibly rest upon an analysis of the extent to which Vargas's policies represented a blow against the conservative power agreement established in 1947.<sup>7</sup> If we go along this interpretative line, then the year 1953 will have been a crucial one. Regardless of whether or not we know how firm was Vargas's resolution to promote a strong union movement that might serve him as a political basis, and of whether or not we can assert that Goulart was highly instrumental in that strategy, the fact is that the strikers' movements — particularly a strike of 300,000 hands in São Paulo — as well as Vargas's attitude toward them were a departure from the conditions for the control over labor movements set up in 1947. João Goulart's proposal for a 100% raise in the minimum wage, which was the most expressive populist initiative of the 1950s, may well have reinforced conservatives' view that, apart from the problem of nurturing class conflicts and going against the ostensible intention of fighting inflation, Vargas actually aimed to control the labor class so as to secure himself an autonomous basis of power. His political weakness is likely to have been the determinant of the initial rejection of Goulart's aforementioned proposal. The major doubt, however, still concerns the tactical reasons why Vargas decided upon that raise in a pronouncement made in his famous speech at the political rally of May 1, 1954, in sheer disregard of the evidence of the decline of his political power. Whatever the answer may be, however, the important conclusion is that his set of attitudes in regard to labor class movements fostered the major political charge that was brought up against him, i.e., the charge that he was plotting to install a "unionist republic" in Brazil.

Against that political background, the "economic crisis" featured only as a complicating element. It will hardly have been a causal factor in the

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(6) A good work about this subject is Maria Celina Luz's book O segundo governo Vargas (1951/1954): Democracia, partidos e crise política, Rio de Janeiro, Zahar, 1982.

(7) This concern guides a study now being conducted by José Luiz Fiori at IEI/UFRJ.

political crisis, especially since the economy continued to grow and generate high profit rates. The "crisis" was presented, for both political and ideological reasons in the conservative opposition, as resulting from the excessive level of governmental intervention into economic matters, which was said to reveal the government's "socializing tendency" and the poor administration of monetary and foreign exchange policies (which pointed to its "incompetence"). The liberation of market mechanisms and the restraint of the state's controlling practices were claimed to be the basic means to restore economic equilibrium.

The political significance of the debate about inflation and the balance of payments was not diminished with Vargas's tragic death in August 1954. During Café Filho's "buffer presidential term" — for such is the best way to describe a transitional government with no clearly defined guidelines — both Minister Gudin and his successor, Minister Whitaker, privileged anti-inflationary policies (Gudin) and an exchange rate reform (Whitaker) in their respective administrations. They therefore kept those controversial questions in the foreground as basic nuclei of political attention. The challenge they faced was obvious: once installed in power, conservatives had to prove consistent with the criticisms they had formulated in their former capacity as oppositionists.

In his article titled "Produtividade", published in the first half of 1954, Gudin had stated: "there is one only remedy: a substantial reduction of investments and a cessation of consumption increases. But in these days of demagoguery, who will have the courage to say as much to the masses? And who will carry out any such program of austerity and sacrifice?"<sup>8</sup> Well in the throes of a banking crisis, São Paulo entrepreneurs, duly supported by Jânio Quadros, succeeded in obtaining credit facilities despite the opposition of

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(8) Gudin, E., "Produtividade", op.cit., p. 34.

both Gudin and the President of Bank of Brazil, Clemente Mariani. Upon submitting his letter of resignation (along with Mariani), Gudin is likely to have realized that courage alone was not enough to enforce a policy of monetary stabilization, political strength being an added requirement. Incidentally, already in the first few months of his administration, Gudin was given excellent proof of his own political weakness upon receiving a refusal from the Congress to his request for a raise in tax revenues that might allow for the restoration of budgetary equilibrium in 1955. Whitaker was installed with the support of both the São Paulo Governor, Jânio Quadros, and São Paulo coffee planters, aiming to reform the Brazilian foreign exchange system so as to benefit the export sector. He too filed a letter of resignation for lack of political power to implement the initiative he had been claiming for since 1952: Café Filho emptied Whitaker's project of any efficacy by submitting it to the sluggish appreciation of the Congress on the grounds that it would not be proper, at the close of his presidential term, to approve of a matter of such far-reaching consequences.

The period's economic and political conjuncture set up an extraordinarily propitious scene for intellectuals to make their preferences explicitly known and to define their developmental projects. Within that historical context there stood out with sharp distinction the political orientation of those who debated the Brazilian "crisis". The "rhythm" of the developmental process was brought under discussion, along with its orientation and the selection of its "capitalist agents", it being known all the while that the country was undergoing a period of major decisions and one fraught with political indetermination. It was no coincidence that precisely during the triennium 1953/1955 the basic institutional framework of the various currents of economic thought of the ideological cycle of developmentalism was finally set up.

## ii. The new institutional location of economic thought

The triennium 1953/1955 may be regarded as the maturational peak of

the developmentalist debate also because this was the time when the renewal and expansion of the set of intellectually productive institutions took place. The movement meant a true realization of the importance of political struggles within the intellectual field. Economists and intellectuals in general were to gather around new institutions with clearly defined basic projects concerning the conduction of the developmental process. The five major currents of economic thought were articulated as follows:

a) Neo-liberals secured two important outposts: in the first place, at the Getúlio Vargas Foundation, Richard Lewinsohn's return to Europe in 1952 allowed the staff led by Eugênio Gudín and Octávio Gouveia de Bulhões, who were already in control of the Brazilian Economic Institute (and published the journal Revista Brasileira de Economia), to take over the control of the periodical Conjuntura Econômica, displacing developmentalists like Américo Barbosa de Oliveira and Thomaz Pompeu Accioly Borges. Significantly enough, on the brink of Vargas's death the latter journal steered away from its exclusively informative line to reinforce the opposition to the government's monetary policy. Second, they set up an Economic Department at the National Economic Council. Neo-liberals' predominance in this agency was clear during that period. Professor Bulhões became its President between 1953 and 1954, while the head of its Technical Department, Denio Nogueira, was to play a remarkable intellectual role in defense of the positions adopted by the Gudín-Bulhões staff. Revista do Conselho Nacional de Economia began to be regularly published as of mid-1952 and attained fairly good academic standards. The institution also published an annual report headed "Exposição sobre a situação econômica e financeira do Brasil", which became a constant source of reference in the period's economic literature.

We should further mention the creation, in 1953, of a third outpost, viz., the Technical Council of the National Trade Confederation. The minutes of the conferences and debates held at the Council's meetings began to

be published, from 1953 onwards, in their bulletin Carta Mensal. Although the Council had a curiously heterogeneous ideological composition, assembling such disparate personalities as Gudin, Hermes Lima, and Caio Prado Jr., predominant among its economist members were neo-liberals.

b) "Non-nationalist"-oriented developmentalists, i.e., government technical officials who advocated foreign capital participation in the fields of energy, transportation and mining, formed a numerically less significant group that was nonetheless active in their intellectual militancy. This group, whose power nucleus was the co-management of BNDE (shared with nationalist developmentalists), did not exactly establish a center for intellectual production. As a matter of fact, its members at the time were still in a position that allowed them free transit among both neo-liberals and nationalist developmentalists. To the neo-liberals at FGV and CNE, in whose opinion they were overly tolerant towards the growing state intervention, they offered their preference for national and foreign private initiative in public services and mining. Moreover, they already began to show an inclination towards a policy of monetary stabilization, albeit with some developmentalist-oriented qualifications. To the nationalists within IBESP and BNDE they conveyed their project to plan industrial development. Campos, Lucas Lopes, and Glycon de Paiva are the three most expressive names in that period. As already pointed out, the Joint Brazil-USA Commission, which was discontinued in 1953, was the initial agglutination point for this current. The Joint Commission's final report, which was widely publicized in 1954, whereas expressing the wish for the expansion of foreign capital action, carefully shirked stating any preferences for either foreign or state capital in the case of investments in strategic sectors. As a matter of fact, one of its main authors, economist Octávio Dias Carneiro, was to become prominent later on for his nationalist stand in regard to the use and exploration of radioactive minerals and to the problem of profit remittances.

c) Nationalist developmentalists created two important institutions: the Brazilian Institute of Economics, Sociology and Politics (IBESP) — which was transformed in 1956 into the well-known ISEB (Institute for Advanced Brazilian Studies) — and the Economists' Club. IBESP was formed as a result of the meetings held by a group of intellectuals at the end of every month in Itatiaia, RJ, during the years 1952 and 1953. Between 1953 and early 1956, IBESP published the journal Cadernos de Nosso Tempo, in a total of five issues. It was IBESP's explicit objective to become a forum for debates about Brazilian reality with the purpose of building up and disseminating a nationalist and developmentalist ideology throughout the country. The institute's most significant independent intellectual production occurred in the areas of sociology, politics and philosophy. In the field of economics, IBESP was, just like ISEB, chiefly an instrument for the diffusion of the markedly ECLA-influenced analyses of economists like Ewaldo Correia Lima and Heitor Lima Rocha. The exception to this rule was the independent thought produced by Ignácio Rangel, a leading intellectual in the pioneer Itatiaia group, which also featured economists Rômulo de Almeida and Jesus Soares Pereira.

The Economists' Club had the same analytical inclination as IBESP. Its major intellectual leader was Celso Furtado. The Club was formed from an initial nucleus of technical BNDE officials led by Américo Barbosa de Oliveira and Furtado himself, who worked at the time with the Joint ECLA/BNDE Commission at BNDE's offices in Rio de Janeiro. It incorporated a large number of technicians from both this and other federal and state institutions. From 1955 (the year of its foundation) up to 1962 it published the journal Econômica Brasileira, which became renowned from the beginning for its watchful criticism of Brazilian neo-liberal thought.

d) Developmentalists working in the private area concentrated chiefly within two institutions: in Rio de Janeiro they continued to work at CNI's Economic Department and to publish Revista Estudos Econômicos, whose last issue dates back to 1954. The group was gradually reduced during Vargas's govern-



ment, which absorbed several of its major technical experts. It resisted its own dissolution thanks to a reduced number of economists prominent amongst whom was João Paulo de Almeida Magalhães, who was also a member of other developmentalist institutions like the IBESP and the Economists' Club, but who nevertheless retained the basic characteristic of defending the industrial private sector's interests with great independence from public sector economists. If the participation of private sector economists in the public debate was declining in Rio de Janeiro, inversely, in the state of São Paulo, the first nucleus of developmentalist economists with fairly good academic standards and a concern for a certain analytical rigor was being formed around the journal Revista de Ciências Econômicas, published by the São Paulo Economists' Order. That journal, whose publication had been discontinued in 1952, was reinstated in 1954 with a sharp improvement of its academic standards. Its major expressions in that period were Nuno Fidelino de Figueiredo and Hêlio Schlittler da Silva, and its most promising member was young academician Antônio Delfim Neto. It is interesting to note that in those years the São Paulo Commercial Association, then presided over by João di Pietro, presented itself as an institution that was open to developmentalist ideas and included among its technical advisors Nuno de Figueiredo himself, who was president of the Editorial Committee of Revista de Ciências Econômicas.

e) Socialists too were again co-ordinating their efforts in the triennium 1953/1955 to take part in Brazilian intellectual life. Since 1947, the year of PCB's recall, the meager integration of socialist intellectuals into the Brazilian debate had been lacking in articulation and appeared in the form of sporadic and nearly always cautious articles by PCB sympathizers like Nelson Werneck Sodré, Heitor Ferreira Lima, and Aristóteles Moura. The only movement in which the socialist current took an active part was the oil campaign, and even so it had to cope with the elementary difficulty represented by the fact that the vehicle used in the diffusion of their ideas was Revista do Clu-

be Militar, a journal that was basically open to contributions by military officers and that, moreover, did not take kindly to the discussion of other economic and political topics than those pertaining to the problem of Brazilian mineral reserves.

By 1954 a transformation began to take place within the PCB as a reaction to the failure brought about by their isolation in the previous years, which had been due not only to political repression but also to the sectarianism of the stances adopted by them. Despite PCB's reaffirmation (at the Party's Congress of 1954) of the sectarianism contained in the "Manifesto of August 1950", there was an overnight liberalizing turn within the Party, which then decided to support Juscelino Kubitschek in the 1955 elections. This movement was simultaneous to the Soviets' liberalization after Stalin's death and the ascension of Khrushchev. It was perhaps a reflexion of this transformation.<sup>9</sup>

The publication of Revista Brasiliense (headed by Caio Prado Jr. and Elias Chaves Neto) by Marxian intellectuals linked to the PCB was the major reflexion of the new picture of the country's economic debate. In subsequent years, up to the early 1960s, Revista Brasiliense, along with Estudos Sociais (published as of 1958), was the major vehicle for the publication of cover articles by PCB intellectuals.

### iii. Crisis, inflation, and the balance of payments

The term used by the various currents of thought in referring to the economic situation then prevailing was one and the same: crisis. The January 1954 editorial of Revista Bancária Brasileira aptly conveyed the prevailing climate. Its text began with the following statement:

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(9) The change in PCB's directives had already been pointed out in the well-known article "Três etapas do comunismo brasileiro", published in Cadernos de Nosso Tempo, January-June 1954, pp. 123-138. The same issue of that journal featured an article titled "Russia - The three positions and the new offensive", which analyzed the policy of the Soviet regime.

"It is with some relief we can now refer to 1953 as a thing of the past, a sketch for a chapter awaiting a historiographer. We now live through the early days of 1954 and they do not look all that promising. The new year receives a very burdensome legacy from the preceding one, a legacy that will aggravate the inevitable consequences of the electoral dispute and that, by virtue of immediatism, will also be displaced onto the forthcoming year".<sup>10</sup>

What one had in mind was not exactly an economic crisis as such. Business was admittedly doing well and the slight retraction observed in 1953 could be accounted for in a most natural way: it had stemmed from agricultural difficulties due to crop losses incurred for climatic reasons, which had been particularly disturbing in 1953.<sup>11</sup> For everyone concerned, the crisis was rather a monetary and foreign exchange one. The use of that term thus reflected a different perception from that of retraction.

In fact, there was a nearly unanimous view that the country was going through a "growth crisis". Neo-liberals did not like that term, which had been used by Campos in a conference made in 1953, and challenged it on different occasions.<sup>12</sup> But this did not contradict the foregoing statement. After all, neo-liberals preached a policy of investment and consumption contraction as they believed there was full employment and excessive demand pressure in the economy. They thus felt that both the investment rate and the growth pace were excessive. What worried them in that term was that it might be understood to legitimize both the crisis and the prevailing growth pace (which can in no way be inferred from Campos's conferences) and thus deviate the attention from what they felt to be the true cause of the crisis, viz., the poor management of the economic policies of Vargas's government, which were claimed

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(10) RBB, January 1954, p. 1.

(11) The agricultural real product growth was nihil in the year 1953. In 1954 and 1955 expansion rates were respectively 8.0 and 7.4%, cf. FGV, Conjuntura Econômica, September 1971.

(12) The most expressive highlights in that challenge appear in three texts: Relatório do CNE, 1953; Gudin, E., "Produtividade", op.cit., pp. 30-34; and Kafka, A., "Estrutura da economia brasileira", in Introdução aos problemas do Brasil, Rio de Janeiro, ISEB, 1956, pp. 34-36.

to be inflationary and interventionistic. Nationalist developmentalists, in turn, also detected an investment crisis and gave preference to the idea of a structural crisis resulting from the market forces' inability to adjust the country's economic structure to the needs of the "historical process" under way.

Some of the major characteristics of the debate about those questions can be identified as we describe the course of the economic policy intentions of the many Finance Ministers who succeeded one another in that troubled political triennium. Between 1953 and 1955, no less than three Finance Ministers lost their office without succeeding in carrying out their pledges to "austerity", a term that had been made fashionable by UDN's opposition to the government. Lafer resigned in July 1953, shortly after having suggested to Vargas an anti-inflationary program that included the following points: reduction of state investments in public works, credit restrictions by the Bank of Brazil, and rigorous control over both the rediscount and liquidation of bank debts with the government's cash fund for the banking system.<sup>13</sup>

Recessionist manifestations such as the foregoing one had both sympathizers and opponents. Among the latter it is worth mentioning the opinion of CNI's President, Euvaldo Lodi, for whom "private initiative and capitalism are incompatible with stagnation and retrocess".<sup>14</sup> IBESP's economists, in referring to the difficulties faced by industrialists at large to take a position, synthesized the manifestations heard at the First Plenary Meeting of the Industry (held in São Paulo in June 1953) as a combination of solemn anti-inflationary statements and recommendations for credit facilities to be granted to several branches of production.

Aranha was installed in office with a pronouncement that resembled that of his predecessor: "We must bridge the large gaps of the inflationary

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(13) Quoted in the news section "O que diz a imprensa", RBB, June 1953, p.11.

(14) Quoted in section "Pontos de Vista", RBB, June 1953, p. 18.

process. For that purpose, it is imperative to curb federal, municipal and state expenditures, slow the pace of public works, prudently reduce the speed of industrial growth, stop the expansion rate of the civil construction industry, enforce a selective control over imports, and defend the domestic purchasing power of the cruzeiro".<sup>15</sup> With Vargas's death Aranha also fell, his anti-inflationary goals having been defeated by political pressures, not the least of which was due to the 100% increase of the minimum wage, which his loyalty to Vargas prevented him from opposing. Gudin, his successor, struggled to give equilibrium to the state budget, but did not succeed in obtaining the Congress' approval, by late 1954, to a special taxation that was meant to avoid a deficit in the subsequent year. As a reaction to that, he declared that he felt compelled to bring to a halt a number of federal works then under way.<sup>16</sup> He further promised to enforce strict credit restrictions.<sup>17</sup> His stabilization policy was the object of criticisms that were intensified as the months went by. Augusto Frederico Schmidt, who was to become one of Kubitschek's advisors in later years, addressed Gudin asking him "whether your technical experts, your advisors and your informers do not bring to your ministerial attention the threat of the forthcoming unemployment".<sup>18</sup> Even the president of as conservative an institution as ACSP made some qualifications at the time to the prevailing stabilization proposal. According to João di Pietro, "we must fight the inflationary process with swiftness and efficiency by every means available, but the fight must be firm and gradual so we may avoid the opposite and far more serious danger represented by unemployment".<sup>19</sup>

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(15) Quoted in section "Opiniões em revista", RBB, September 1953, p. 9.

(16) See editorial of OEF, December 1954, p. 3.

(17) See, for instance, the article "Gudin enfrenta a inflação", in section "No mundo dos negócios", OEF, November 1954, pp. 66-68.

(18) Quoted in news section "O que diz a imprensa", RBB, November 1954, p. 13.

(19) di Pietro, J., "A Associação Comercial de São Paulo e a conjuntura nacional", D.E., March-April 1955, p. 10.

Opinions like those voiced by di Pietro were not unanimous, but they became increasingly stronger. Upon enforcing his credit restriction policy, as we have seen, Gudin was compelled to hand in his resignation amidst a severe bank crisis stemming from the credit facilities granted to the state of São Paulo by President Café Filho, who yielded to the pressure of entrepreneurs allied to local politicians. The resignation of Whitaker, the fourth Finance Minister in that triennium, came six months later, upon Café Filho's veto on the proposed foreign exchange reform, the Minister not daring to radically frustrate entrepreneurs' pressure for credit. Mário Câmara, the fifth Finance Minister, was unable to do anything in the three-month period allotted to him before the installation of the new President in January 1956.

The instability of monetary policies had no exact counterpart in foreign exchange policies, as SUMOC's "Instruction no. 70" was enforced as of October 1953 up to August 1957.<sup>20</sup> Still, the period was fraught with uncertainties, divergences and controversies about foreign trade policy. The innovation brought about with the free exchange rate market in February 1953 was nothing but an introduction to the wider reform initiated by Instruction no. 70. The adoption of a free market had not convinced Eugênio Gudin, who continued to assert his preference for multiple exchange rates for imports and exports as the ideal means to reconduct the system step by step to a single exchange rate. Generally speaking, the free market was viewed as a pallia-

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(20) Law no. 1802 of January 1, 1953 (known as the law on the free exchange rate market) and SUMOC's Instruction no. 70, of October 9, 1953, were the two far-reaching measures enforced during that period. A good description of these and other measures is found in a study by Malan et al., *Política econômica externa e industrialização no Brasil (1939/1952)*, Rio de Janeiro, INPES/IPEA, pp. 463-472. Law no. 1807 created, side by side with the official exchange rate market, a free exchange market at which, according to a description in the aforementioned book, transactions would cover "the inflow and repatriation of risk capital and its profits exceeding 10% p.a., as well as interest exceeding 8% p.a., international travel and tourism, and other operations of a strictly financial character; and exports and imports of goods, either totally or partially, whenever expressly authorized by SUMOC and subject to prior authorization by Bank of Brazil's Bank Inspection Department". Instruction no. 70 eliminated quantitative controls over imports and replaced them by a regime

tive, first of all because it maintained the system of quantitative controls by CEXIM, an agency that fell prey to an intensive oppositionist campaign that charged it with corruption and sluggishness, and secondly because it was not possible to expand imports through that market, as it was fed with only insignificant amounts of foreign currency. When Oswaldo Aranha finally adopted the multiple system — under an outcry from the Congress, which had not been heard on that issue — Whitaker was his major opponent, addressing his attacks against what he referred to as an "exchange rate confiscation" of export-oriented agriculture, given the agios charged from importers. Marcos de Souza Dantas, then President of Bank of Brazil, defended Instruction no. 70 against Whitaker's attacks by stating that, in fact, agios were initially paid for by importers, but they were ultimately paid by consumers, to whom import costs were transferred via increases in final product prices. Agios therefore represented no onus to exporters. Moreover, said Souza Dantas, they added up to a fund that was being used as a credit for agriculture.<sup>21</sup> Whitaker replied by reasserting his view that imports paid an entirely artificial official exchange rate, as, when added to the agios then being charged, that exchange rate amounted to average sums that were close to the rate of equilibrium; therefore, a cruzeiro devaluation would in no way affect import product prices and would merely do justice to exporters. Whitaker further stated that the application of the fund formed by agios as a credit source for agriculture was an altogether unsatisfactory compensation to offset the losses incurred by exporters.

Gudin strongly supported Aranha's policy and maintained it throughout his term of office. By avoiding an exchange rate devaluation he was being

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of exchange rate auctions within a system of multiple rates divided into five categories, according to the degree of essentiality of the products imported. It maintained the free market for financial transactions under Law no. 1807 and reverted to the single exchange rate system for exports (Cr\$ 18.00), added to a Cr\$5.00 bonus for coffee and a Cr\$10.00 bonus for other products.

(21) The press gave ample coverage to the debate between Whitaker and Souza at the time. See, for instance, the editorial "A batalha dos ágios", OEF, June 1954, p. 5.

consistent with his own view that the major cause of foreign trade disequilibrium was inflation. Well aware that he lacked the political strength to fight the latter as rigorously as he deemed fit, Gudín preferred to wait for a reversal in the inflationary process before he could effect a foreign exchange reform.

Meanwhile, a project for the simplification of the exchange rate system, along with a reform of customs tariffs, was beginning to ripen before being finally put in practice in 1957. The plan for that reform was being elaborated by the Commission for Revision of Customs Tariffs at the Finance Ministry. CNI's President, Euvaldo Lodi, a former fellow of Roberto Simonsen's in protectionist struggles, expressed his eagerness to see that reform introduced. Antonio Devisate, from FIESP, also gave it his public support, with the proviso that tariffs should not be "excessive".<sup>22</sup> Upon being installed in the office of Finance Minister with a commitment to eliminate the "exchange rate confiscation", Whitaker devised (at the suggestion of Roberto Campos) a policy of a single flexible exchange rate, allied to a system of temporary import surtaxes that should remain in force until such time as the anticipated customs reform could be carried out. In a letter to Whitaker, Roberto Campos, then a director of BNDE, emphasized three basic points. First, he claimed that the exchange rate devaluation would not be as inflationary as was generally feared, for import prices would not be raised and the elimination of agios would simply be offset by the devaluation and the surtaxes. The exceptions would be the imports of "essential" products like oil, wheat and printing paper, and the measure would have the added advantage of discouraging consumption. Second, he argued that the major inflationary effect would be brought about by export products, but anyway this was already unavoidable if one wanted to revert the drop in their supply. Third, while acknowledging the conve-

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(22) Quoted in the section "Opiniões em revista", RBB, November 1954, p. 16. We must note that in 1955 a project for the creation of a Customs Policy Commissions was first submitted to the National Congress.



nience of avoiding an exchange rate devaluation simultaneously to a stabilization policy, Campos argued that the serious situation of Brazilian exports called for a more dramatic measure.<sup>23</sup> By the time the project was submitted, Campos publicly acknowledged its authorship and referred to the support it had received from Bernstein, of the IMF, for whom the reform would be neutral from the point of view of inflation. In his article "Reforma cambial", published in 1956, Campos clarified the meaning of that neutrality: "Had Instruction no. 70 been enforced with a sterilization of the total balance of agios, Whitaker's reform might have some inflationary effects. Since, however, the government did not sterilize agios, an exchange rate reform allowing for a larger portion of the agios formerly channelled to the government to be directly handed over to exporters will entail no expansion of the payment means. Therefore, the fear of an inflationary wave resulting directly from the exchange reform is quite unwarranted".<sup>24</sup> Campos's earnest endeavors to support Whitaker were of no avail. House Representatives from UDN itself, like Aliomar Baleeiro and Herbert Levy, insisted that the Congress be heard and pointed out that the devaluation would unnecessarily reward coffee, cotton and cocoa, which were already sufficiently profitable as matters stood. This indicates that at that time the interests of the export sector no longer found support even within conservative opposition.

Concurrently with the intensification of the debates about the conjunctural economic policy measures we find a substantial increase in the number of analyses that linked monetary and exchange rate problems to the general issues of economic development. In this sense, a true qualitative leap was observed in the economic debate through an increased subordination of the discussions about inflation and the balance of payments to the more inclusive question of national economic development.

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(23) The text is reprinted in Whitaker, J.M., O milagre da minha vida, São Paulo, Hucitec, pp. 286-295.

(24) Campos, R., "Reforma cambial", D.E., Aug./September 1956. Campos's position regarding the foreign exchange question by mid 1955 marks a reversal

The two major conflicting analytical positions were those taken by neo-liberals and nationalist developmentalists, the latter of whom were already in possession of ECLA's basic argumentation, whose elaboration, as we know, was to take place through Noyola Vasquez's and Sunkel's theorizations in subsequent years. The major documents conveying the neo-liberal analysis are CNE's periodicals for the entire period and the agency's annual reports ("Exposição geral da situação econômica do Brasil") for the years 1952, 1953, and 1954.

CNE's fundamental argumentation was that the state was making excessive investments that surpassed the system's savings capacity, given the situation of full employment. In the Report dated late 1952 the tone used was still a cautious one, avoiding any references to the restructuring of credit, but already requesting that investments be "staggered". The Report for 1953 stressed the existence of excessive investments in the country with an attendant high pressure for consumption. This report included statistical data that attempted to confirm the increase in governmental expenditures as compared to the gross domestic product, thereby affecting the relative levels of consumption and private savings. The diagnosis offered was one of demand inflation caused by public deficits (owing to excessive governmental consumption and expenses) and nurtured by currency issues and credit expansion. Neo-liberals thus sought to strengthen two of their objectives with one only argument, i.e., monetary stabilization and reduction of state intervention in the economy.

With respect to foreign trade disequilibria, the document asserted that the pressure on the balance of payments was due to inflation, which was said to discourage both domestic savings and foreign capital inflow. Moreover,

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in his participation in the developmentalist debate. Later on, as a director of BNDE, he continued to promote developmentalist goals, but his pronouncements began to resemble those made by liberals where monetary stabilization and state investment questions were concerned. See, in this respect, chapter 3.2, item ii of Part I of this work.

it was argued that the import substitution process did not lower the deficit in the balance of payments but rather aggravated it, in that new investments demanded heavy imports of capital goods and raw materials. The document proposed that the import substitution policy give priority only to oil, wheat, and printing paper. The argumentation concerning the increased pressure on the balance of payments, as we know, was not only accepted but rather emphasized by structuralists, except that the solution required, according to the latter, was precisely the opposite of the one suggested by CNE, i.e., it consisted of planning and an intensification of the import substitution process.

A debate was being inaugurated in Brazil between "anti-structuralists" and structuralists, or rather, as it became customary to call it independently of the Keynesian approach, between "monetarists" and structuralists. One of the early highlights in that debate was the controversy between Denio Nogueira, then head of CNE's Economic Department and in charge of preparing the agency's annual reports, and Celso Furtado, who wrote a paper criticizing the Report for 1954.<sup>25</sup>

Furtado's major target was CNE's argumentation that governmental participation in national income was being increased by the inflationary process. According to him, CNE had made poor use of the available statistical data. Furtado claimed that the data allowed the conclusion (in contrast to CNE's statements) that neither consumption nor private savings had been reduced as compared to national income, and they even allowed the determination of a high stability within the relationships among macroeconomic variables.

Nogueira replied by reasserting CNE's conclusions. In the first place, said he, there had not only been a real drop in consumption in relation to income, but also the wage/income ratio had been reduced between 1947 and 1952. This corresponded, according to Nogueira, to a process of forced savings by

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(25) Furtado's criticism was published in Econômica Brasileira, January/March 1955, pp. 55-57. Denio Nogueira's reply appeared in RCNE, May/June 1955, pp. 25-38.

wage-earners on behalf of the state. Second, the private savings rate had also dropped, which was easy to verify merely by not including the amounts of "popular limited deposits" into the category of "savings", as in any event such deposits could hardly be assigned that meaning. Another basic point of contention between Furtado and Nogueira was the analysis of the inflationary process. Furtado rejected CNE's Keynesian analysis of inflation due to demand pressures by claiming it did not apply to Brazilian reality, first of all, because the supply of capital goods did not depend solely upon domestic production but relied especially on imports, it being forcible to acknowledge the existence of a structural import capacity problem that could not be analyzed via the Keynesian approach. Secondly, because labor supply was elastic even under conditions of full capacity of the available equipment.

Denio Nogueira replied to that criticism by admitting of the existence of an import capacity problem, but stated that this demanded the attraction of foreign capital and an effort to curb inflation, which was said to stimulate imports of superfluous goods and exports of essential ones. As for the underemployment thesis, Nogueira argued (along Gudin's line) that what actually existed was low productivity, which inflation itself made it difficult to raise. And he concluded his reply to Furtado by stating that the Brazilian economic crisis was not a growth one, but rather one of poor management of economic policies. Furtado was claimed to be misguidedly supposing that there could be no non-inflationary growth, and hence to be attempting to displace the analysis to long-run terms. This, according to Nogueira, enhanced the mistake of presuming that the state should interfere to guide resource allocation, when in fact it is inflation itself, caused by excessive governmental expenditures, that introduces distortions into the economic system. In other words, Nogueira stated that inflation was the cause of sectorial and foreign disequilibria, and not the other way around. The Furtado-Nogueira controversy, therefore, already embodied the kernel of the analytical divergence between structuralists and monetarists.

At that time, the structuralist perspective was presented in IBESP's Cadernos de Nosso Tempo and in Econômica Brasileira. It was already an integral part of the analysis made by political scientist Helio Jaguaribe about the Brazilian "crisis", in the first issue of Revista do IBESP, in the part concerning the economic crisis, which had been written with the co-operation of Ewaldo Correia Lima (the other parts analyzed the social, cultural, and political crises).<sup>26</sup> According to Jaguaribe, it is from the economic structure inherited from the past that "there results the conjuncture of scarcity and inflation the country resents ever more pointedly". Added to this problem is "the deliberate intervention of groups that manipulate certain sectors of production, circulation and distribution of goods".<sup>27</sup>

The economy's basic problems were claimed to be the deterioration in the terms of trade and its reflexions on the balance of payments; the low productivity in production; the shortage of capital and technical resources; and the fact that basic services and undertakings at large were unequipped. Inflation was said to be a consequence of those problems, the "more efficient and fast solution" to which demanded "a general planning of the economy and a rigorous execution of the plans".<sup>28</sup>

In the second issue of Cadernos de Nosso Tempo we find another approach following ECLA's line of thinking, this time relating industrialization and the crisis in the balance of payments. Its author, Heitor Lima Rocha, employed the structuralist argumentation with precision: the expansion of international demand for Brazilian products being slow and there being a deterioration in the terms of trade, a high investment and domestic growth rate must necessarily be translated into a structural disequilibrium in the balance of pay-

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(26) Jaguaribe, H., "A crise brasileira", Cadernos de Nosso Tempo, October/December 1953, pp. 120-160.

(27) Idem, p. 122. The text, however, refers to the existence of full employment, an argument that structuralists did not grant their opponents.

(28) Idem, p. 138.

ments. It was no use to try and fight it via "orthodox" measures. On the contrary, "given the age-old character of the disequilibrium in the balance of payments, it is the objective of any developmental policy to overcome that disequilibrium in the long run".<sup>29</sup> The solution in the form of increasing exports "escapes the control of national policies and they can be increased only when the country is able to supply the international market with goods and services that enjoy a high income elasticity, i.e., manufactured items in general".<sup>30</sup> According to Rocha, there would thus remain as an economic policy solution the enforcement of a domestic investment policy that must seek to accentuate the prevailing tendency towards a higher increase in the production of import substitution items.<sup>31</sup>

In the last issue of Cadernos de Nosso Tempo we find a long article of economic and political analysis full of ECLA arguments.<sup>32</sup> Its basic proposal was that the economy be analyzed from the starting point that Brazilian society was going through a transitional stage in its "structure type" and was being transformed from an underdeveloped and neo-colonial country into a fully developed economy. The article shows an argumentation resembling the one found in the text to be written by Prebisch in 1961 to support the structuralist thesis about inflation, titled "O falso dilema entre equilíbrio e inflação" ("The false dilemma between equilibrium and inflation").<sup>33</sup> The article published in IBESP's journal pointed to an impasse in the prevailing discussions between "deflationists" and "inflationists", claimed to be engen-

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(29) Rocha, H.L., "Condições para o equilíbrio do balanço de pagamentos do Brasil"; Cadernos de Nosso Tempo, January/June 1954, p. 171.

(30) Idem, p. 172.

(31) Ibid. Another important text including an identical analysis was that of Ewaldo C. Lima's conference at IBESP in 1955, reprinted in Introdução aos problemas do Brasil, Rio de Janeiro, ISEB, 1956, pp. 57-86.

(32) The article is called "Para uma política nacional de desenvolvimento", published in Cadernos de Nosso Tempo, January/March 1956, pp. 53-188.

(33) Prebisch, R., "El falso dilema entre desarrollo economico y estabilidad monetaria", Boletín Economico de America Latina, vol. VI, no. 1, March 1961.

dered by their being "conducted at the monetary level of the question", which assumed an invariability of the "structure type" and sought to give a solution to the disequilibria generated by it without transforming it.<sup>34</sup>

The document next emphasized the need to plan the current transformation of the "structure type". It thus bore the mark of ECLA's conclusions in all of its analyses about monetary and foreign exchange disequilibria, i.e., the view that their structural nature demanded a long-term solution which could not be efficiently achieved through the mere interplay of market forces, but rather called for some decisive planning.

Between monetarist neo-liberals' analyses and those made by structuralists in the nationalist developmentalist current there were several intermediary positions, beginning by the fact that not all nationalist developmentalists were fully structuralists. Juvenal Osório Gomes, for example, listed both structural reasons and factors linked to monetary and foreign exchange policies to account for foreign disequilibria.<sup>35</sup> According to him, the deficitary tendency in the balance of payments had been considerably aggravated by the excessive cruzeiro valuation. He also drew attention to a distortion in the process of substitute industrialization caused by quantitative restrictions on the import of non-essential goods, which had misled economic development into stimulating the domestic production of those goods. Moreover, Gomes felt that there was no doubt "as to the immediate need to put a stop to the inflationary process in Brazil" by means of credit retraction and, in particular, through the control of Bank of Brazil's operations.<sup>36</sup>

The analyses made by developmentalist economists linked to the private sector were also half-way between the two positions indicated, though not so much, to be sure, with regard to the question of foreign trade dise-

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(34) In Cadernos de Nosso Tempo, January/March 1956, p. 90.

(35) Gomes, J.O., "Situação econômica do Brasil", Cadernos de Nosso Tempo, April/August 1955, pp. 24-34.

(36) Idem, p. 34.

quilibria, where they were inclined towards the structuralist view.<sup>37</sup> In this particular respect an interesting debate is recorded between Nuno Fidelino de Figueiredo, supported by other technical experts from the São Paulo Commercial Association, and the Council for Chambers of Commerce, an agency that congregated foreign commercial representatives with head offices in São Paulo.<sup>38</sup>

The stand taken by the Chambers of Commerce was that the solution to the Brazilian foreign exchange problem lay in exchange rate liberation. They felt that even if there were a fall in the international price for coffee, there would be, as a consequence of that liberation, the advantage of discouraging supplies by competing countries. The stagnation of Brazilian exports was purportedly due to the policy of incentives to import substitution substantiated by the system of anticipated import permits, which was claimed to have rendered the exchange rate inflexible from the beginning of the inflationary process, back in 1939, thus hindering the operation of an automatic mechanism to restore equilibrium. In the prevailing situation, the cruzeiro overvaluation was said to be maintained by the exercise of an exchange rate confiscation, thus giving continuity to the discouragement of exports. The method of exchange auctions was unacceptable for the same basic reasons as quantitative controls: it rendered the exchange rate system inflexible, thus hindering the automatic correction of disequilibria, i.e., the discouragement of imports and the stimulation of exports.

Nuno Figueiredo's assessment of the analysis made by the Chambers of Commerce contained some basic elements of ECLA's analyses. He pointed out that exchange rate liberation "in no way served the country's interests as an immediate or short-term goal",<sup>39</sup> first of all because the fall in the dollar

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(37) See, for instance, the article by João Paulo de Almeida Magalhães and E. Street, "O problema cambial a longo prazo", Estudos Econômicos, September/December 1953, pp. 100-132.

(38) Figueiredo, N.F., "Inflação e câmbio", Revista de Ciências Econômicas, December/March 1955, p. 63.

(39) Idem, p. 71.



revenues supplied by coffee would be unavoidable in the event of a devaluation, given the character of international supply and demand. In this respect, Figueiredo challenged even the possibility of appreciably curbing the impetus with which other countries were expanding coffee production.

He further pointed out that a policy of devaluation "could not have the merit of bringing a significant stimulus to the volume of exports owing to the existence of decisive physical restrictions".<sup>40</sup> On the other hand, the diagnosis about the influence of the import substitution policy on foreign disequilibria was said to be basically mistaken:

"The primary responsibility for the difficulties in the balance of payments lies not so much with the stagnation of exports as with the uneven increase of import 'capacity' and import 'needs', particularly concerning capital goods for the advancement of the country's economic development. And this circumstance is inherent in the economic development process of underdeveloped countries. That process means, by its own definition, an increase in productivity, i.e., in the population's real per capita income, and it is therefore desirable in itself, notwithstanding the balance-of-payment difficulties it may engender".<sup>41</sup>

The reasons above would warrant the maintenance of the method of foreign currency auctions and multiple exchange rates "as a means to match the supply and demand of foreign currencies in national currency without resorting to imports and without quantitative restrictions on these".<sup>42</sup> The recommendation of a single exchange rate by the Council for Chambers of Commerce failed to acknowledge the basic requirements stemming from "the structural characteristics of the country's economy", from the "monetary and fiscal policy now being imposed" and from the "imperative need to develop the country's economic infrastructure".<sup>43</sup>

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(40) Figueiredo, N.F., "Inflação e câmbio", op.cit., p. 67.

(41) Idem, p. 77.

(42) Idem, p. 83.

(43) Idem, p. 84.

With regard to the analysis of inflation, private sector economists departed from ECLA's views, but they nevertheless did not lapse into neo-liberal recessionism. Regarding this particular aspect, the intellectual leadership of CNI's Economic Department was held for many years by João Paulo de Almeida Magalhães.<sup>44</sup>

Magalhães emphasized the problem of the inadequacy of domestic savings in the face of investment needs. However, he stood half-way from the retractionist solutions proposed by neo-liberal economists, on the one hand, and from the structuralists' aversion to discussing short-term measures, on the other. He defended the industrial private sector's position, fighting any rises in the taxation of higher-bracket incomes with the argumentation that they would jeopardize the private savings and investment capacity in the economy. His basic proposal was to try and increase voluntary savings by keeping the consumption level constant. To attain that goal, he indicated the increase of indirect taxes as one of the necessary instruments. As we have noted in chapter 3.1, Part I, Magalhães later advanced the proposal of using inflation as an instrument of forced savings until voluntary savings could be expanded.

Still in the area of intermediary positions between monetarism and structuralism we must refer, last of all, to the period's most important contribution, i.e., the Financial Report of the Joint Brazil-USA Commission. The two major economists who took part in the elaboration of that document were Roberto Campos and Octávio Dias Carneiro. It is important to observe that by the time the Report was written (the year 1953), Campos subscribed to a developmentalist emphasis and maintained a predominantly eclectic stand in analyzing inflation and foreign trade disequilibria. His texts already showed some signs that foretold his later inclination towards stabilization policies, which be-

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(44) See Magalhães, J.P.A., "O desenvolvimento econômico e a inflação", fifth lecture of the series "Condições econômicas do desenvolvimento", delivered at the Education Ministry in 1954 and reprinted in Estudos Econômicos, July/December 1954.

gan, as we have pointed out, in 1955. But the outstanding feature of his writings was still his eclecticism, the best symbol of which was the expression "growth crisis", which he used to describe the Brazilian situation, thereby giving rise to a number of objections on the part of neo-liberals.<sup>45</sup> As for Octávio Dias Carneiro, whose later participation in the developmentalist debate was chiefly connected with the nationalist policy concerning nuclear energy, he took at that time a cautious stand regarding the Commission's recommendations about anti-inflationary measures and laid emphasis on the need to plan economic development. The Joint Commission's Report reflects the heterodox and relatively dispassionate views by which those two economists strove to situate themselves with regard to inflationary and exchange rate problems in 1953. The result of that effort was the combination of a marked inclination towards industrial development and the most systematic analysis produced until then about the disequilibria generated by the process under way.<sup>46</sup>

The analyses about inflation and the balance of payments appear in chapters III and IV of the Report and are preceded by two chapters presenting a general diagnosis of the Brazilian economic situation in the early 1950s. The vigor of the Joint Commission's analysis originated from the same source from which ECLA's and Furtado's analyses drew their strength, i.e., the historical perspective.<sup>47</sup> Brazilian economy was seen as a system undergoing profound changes since the decade of 1930. The process was claimed to result from the fall in the coffee sector's profitability, added initially to the 100% devaluation of the exchange rate between 1929 and 1939, and later to direct controls over foreign trade, which had been concomitant with inflation and an overvaluation of the national currency.

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(45) See in this respect chapter 3.3, item ii of Part I of this work, which covers Roberto Campos's thinking.

(46) Comissão Mista Brasil-Estados Unidos, Relatório Geral.

(47) Coincidentally, 1953 was also the year when Furtado finished the first version of his Formação econômica do Brasil (then titled A economia brasileira).

The high post-war investment rate was attributed to two different causes: foreign trade superavits accumulated during the war and the soaring foreign trade deficits verified in 1951 and 1952. The Joint Commission's Report did not stress the contribution made by the improvement in the terms of trade, which both Gudin and Furtado pointed out as one of the major sources of the high growth rates observed in the period.<sup>48</sup>

As contributing factors to the recent developmental boom the Report identified urban market growth via industrialization and rural market expansion resulting from both the reestablishment of profitability in agriculture and the expansion of the commercial production of foodstuffs for the domestic market. Generally speaking, therefore, there was an acknowledgement of agriculture's capacity to respond to the needs of urban industrial development; but this did not prevent the Report from pointing out a number of flaws in agricultural production methods — which were said to be, to a large extent, still "extraordinarily primitive and soil-exhausting" — as translating factors like rural entrepreneurs' lack of drive or the "semi-feudal practices of landholding".<sup>49</sup> Even so, the cause of the increase in the domestic-oriented agricultural output between 1939 and 1950 was claimed to have been, apart from the increased cultivated area (via the incorporation of more fertile soil), the rise in productivity due to mechanization and the adoption of better agricultural techniques. For that reason, the substantial increase in the price of food products could not be attributed to supply rigidity, but rather to the inadequacy of the transportation, storage and distribution system, which was responsible for an enormous waste.

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(48) According to Gudin, there were three causes for the high growth rates: foreign superavits accumulated during the war, foreign deficits in the years 1951 and 1952, and the rise in international coffee prices. Gudin offered this analysis in a discussion where he disagreed with Campos's interpretation that Brazil was going through a "growth crisis". See Gudin, "Produtividade", op.cit., pp. 30-34.

(49) Comissão Mista Brasil-Estados Unidos, Relatório Geral, p. 41.

The major problems to be faced by a developmental policy would be the bottlenecks in transportation and power supply, together with the need to adopt a fast solution to the exploration of national fuel sources. The binomial transportation-energy, as already pointed out, was the field of actual contributions made by the Joint Brazil-USA Commission, which prepared thirty-eight investment project for those two sectors. It was to the reinforcement of the latter — which, as we know, was the starting point of BNDE's developmentalist action — that the diagnosis prepared by the Joint Commission in the first two chapters of the Report on Brazilian economy was generally addressed.

The analysis of the inflationary process was dealt with in chapter III. The historical perspective and the structural picture outlined in the first two chapters caused the analysis to be accordingly pervaded by references to structural and institutional factors that nurtured monetary instability. Among others, the report mentioned: (a) the impact of the accelerated industrialization process, which gave a larger incentive to investments, on a scanty basis of stimuli to the accumulation of voluntary savings; (b) the impossibility of redirecting export-oriented production so as to reduce the impact of inflation, as the country did not export basic food products; (c) the impossibility of importing the advanced production techniques used in mild-climate agriculture, which was distinct from the agricultural activity that was typical of the Brazilian climate; (d) the inadequacy of our import capacity also for lack of foreign financing, and the obligation of directing exchange revenues to equipment imports to the detriment of consumption goods imports.

The reference to those characteristics, however, did not change the Joint Commission's analysis into a structuralist one. Its function was to draw attention to the vulnerabilities of the Brazilian economic system, with the obvious aim of suggesting caution with respect to the conduction of monetary policies. In essence, that was a Keynesian analysis of a full-employment inflation, attributing price rises to the impossibility of reducing consumption in view of the investment pressure generated by deficits and reinforced by

excessive credit. Still, the Joint Commission abstained from making contractionist recommendations and restricted itself to concluding the Report with the following note of warning:

"Upon weighing the various aspects, it seems clear that inflation has become an increasingly inefficient and costly instrument to effect the channelling of resources to the investment sector, and that the resulting economic distortions and social tensions can no longer be pushed aside as negligible facts.

The capacity of Brazilian statesmen is confronted with no greater challenge at the present hour than the formulation and execution of a well-co-ordinated policy in the monetary, fiscal and exchange rate fields, as well as in relation to wages, so as to render the maintenance of high investment levels compatible with the mastery of inflation and the reduction of the pressure now impinging upon the balance of payments".<sup>50</sup>

The rich analysis of the exchange policy situation shown in chapter IV follows an identical course and direction. The Joint Brazil-USA Commission examined the fixed exchange rate policy adopted as of 1947 and identified as its major positive outcome the stimulation of internal market-oriented production through the protection granted to domestic production and the priority given to the import of equipment, raw materials, and fuels. The rationale behind that policy, which resulted in a progressive valuation of the cruzeiro, was, according to that document, a combination of the fear of a deterioration in the terms of trade, the fear of excessive profitability in the coffee exports sector, and the reluctance to effect a devaluation before controlling inflation. As a negative consequence the Report pointed to an industrialization that relied excessively on imports, thereby discouraging, for instance, the domestic production of fuels and raw materials. With regard to the foreign exchange crisis of 1951/1953, which was attributed to the liberalization of imports, the Argentine wheat crisis,<sup>51</sup> and the fall in cotton and wool exports,

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(50) Comissão Mista Brasil-Estados Unidos, Relatório Geral, p. 88.

(51) The Argentine wheat crisis forced Brazil to import US\$150 millions' worth of this product from convertible currency areas.

the Report stressed that the boom in the import of equipment and raw materials had had the positive effect of assuring industrial expansion.<sup>52</sup> We must note that it even considered it possible that the final result attained had been better than what it would have been in case imports had followed a regular and well-ordered process. The view guiding that analysis was that it is typical of the industrialization process to entail a fall in the export rate as compared to the gross domestic product, and consequently also entail disequilibrium in the balance of payments.

As in the analysis of inflation, the heterodox approach adopted was accompanied by some notes of warning. In the first place, the Report pointed out that the import substitution process does not solve the problem of the balance of payments, but rather aggravates it, both because the new substitute investments are import-intensive as regards raw materials and equipment and because economic growth itself generates an attendant expansion of imports, including consumption goods imports. Second, the document noted that an accelerated domestic inflation increases the pressure on the balance of payments, and it concluded that the inflationary situation with an overvaluation of the cruzeiro "has already outlived its useful period", during which it had contributed to the industrialization process. As matters stood, the temporary disequilibrium threatened to become a chronic problem, as the country was reaching the untenable situation of discouraging exports and foreign capital inflow while stimulating imports and profit remittances.<sup>53</sup>

Two formulas to change the exchange rate policy were considered by the Joint Brazil-USA Commission: a cruzeiro devaluation simultaneous to taxation of export revenues, the resources thus obtained being channelled to financing heavy industry, and a devaluation combined to a system of special surtaxes

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(52) This analysis, as well as several other points in the Joint Brazil-USA Commission's Report appear in Campos, R., "A crise econômica brasileira", D.E., November 1953, pp. 28-44.

(53) Comissão Mista Brasil-Estados Unidos, Relatório Geral, p. 111.

whereby the temporary difficulty of reformulating the taxation system would be overcome. The latter formula, as we can see, is identical to the proposal to be made by Campos in mid-1955 to Minister José Maria Whitaker.

#### iv. Planning, state capital and foreign capital

The economic and political conjuncture of the triennium 1953/1955 was a situation starting from which one might expect the economic debate to concentrate on short-term problems, as usually happens in times of monetary instability. However, as we have seen, the very discussion about inflation and foreign trade disequilibria was generally tied to a developmentalist perspective. There began to predominate within the country's elites a realization of the depth of the transformations under way. Naturally, therefore, a premium was put on the proposal for economic planning, which gradually outran the still resisting neo-liberal perspective.

By and large, as far as liberals were concerned, that was not a convenient time to challenge the significance of the advancement represented by the industrialization process under way. Save for a few exceptions, their efforts were concentrated in fighting state intervention into the economy. Criticisms were addressed, first of all, as we have seen, to the government's policy of artificially controlling prices. In attempting to freeze food product prices and public service charges the government was said to be affecting market mechanisms and jeopardizing the desired equilibrium even further. Secondly, heavy attacks were charged against state investments. Thus, planning was criticized not only for its implication of a partial denial of the efficiency of market mechanisms (incidentally, neo-liberals made a few concessions in this respect), but was viewed with suspicion specially as an instrument to expand the state's direct participation in productive activities.

When Vargas was deposed in 1945, the liberal plea to empty or extinguish governmental agencies in charge of economic control and guidance was largely successful, as we have seen. But by the time of his death in 1954,



the situation was quite distinct. The new state technocracy was successfully struggling to consolidate and expand the ground conquered since the President's reascension in 1951 — an effort that gave it the immediate ability to influence the country's major economic decisions. Through the Joint Brazil-USA Commission, BNDE (where some of Vargas's chief economic advisors moved into), the Bank of Brazil, and ECLA, those technocrats endeavored to assert what they felt to be their major weapon of legitimation: technical knowledge, whose symbol was the concept of planning.

The Annual Reports issued by BNDE and BB are a good demonstration of that.<sup>54</sup> Those prepared by BNDE show a powerful defense of planning — something to be expected, to judge from what is known about that institution.<sup>55</sup> Bank of Brazil's reports are considerably less emphatic. Even so, given the bank's capacity as a credit institution against a background of attempts at stabilization, those documents are somewhat surprising. This is not quite so with regard to the report for 1952, as the Bank's President in early 1953 was developmentalist Anápio Gpmes. In that text it stated that the evolution of the inflationary curve was due "to conditions that are inherent to the stage of structural transformation Brazilian economy is going through", and there was a recommendation for a "program of priorities" to break open the economy's basic bottlenecks.<sup>56</sup> What strikes the reader with greater wonder, especially in comparison to the Bank's documents issued during the stabilization periods of the 1940s, is the shyness with which the reports for 1953 and 1954 (under the responsibility of Marcos Souza Dantas and Clemente Mariani, respectively) allude to contractionist measures, and the openness with which they recommend the need for planning with a view to assuring continuity to productive investments.

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(54) In the decade of 1950, BNDE's annual reports were titled "Exposição sobre o Plano de Reaparelhamento Econômico" ("Review of the Economic Re-equipment Plan").

(55) In BNDE's report for 1952 there is an enthusiastic reference to the prospect of economic planning opened by an agreement signed with ECLA at the Quitandinha Conference in 1953, which created the Joint ECLA/BNDE Group (pp. 31-32).

(56) Banco do Brasil, Relatório Anual de 1952, pp. 100-101.

Two major planning proposals were being discussed in the country in 1953/1955. The Joint Brazil-USA Commission developmentalists, under Campos's leadership, argued for sectorial or "sectional" planning. Nationalist developmentalists, led by Furtado, advocated ECLA's proposal, which aimed at a more comprehensive planning.

The concept of sectorial planning had the power to deepen most extraordinarily the realization of the importance of the pre-investment work then being elaborated by the Joint Brazil-USA Commission. The rationale of that proposal, according to Campos's conferences, was to convert sectorial bottlenecks into "germination points" or "growth points" by means of investments capable of radiating expansion to the remainder of the system. The Target Plan, formulated by Campos with Lucas Lopes's support, was imbued with that philosophy, which was a forerunner of Hirschmanian thinking.

This conception was not challenged by neo-liberals, perhaps because it came from a group of technicians who were mostly favorable to foreign capital (Campos, Glycon de Paiva, Lucas Lopes) and because the Joint Commission's actual point of reference was investment in the areas of energy and transportation, which several neo-liberals viewed as admittedly requiring massive state support. They thus failed to realize the extraordinary power of this conception of planning, which was to dominate developmentalist policies during the second half of the 1950s.

Apart from the diffusion of the sectorial planning philosophy, the Joint Brazil-USA Commission also disseminated in Brazil the idea of controlling the creation of "external economies". It is needless to point out that such conception was protected by the importance assigned to it by the major international financial agencies. Nationalist developmentalist Octávio Dias Carneiro, from the Joint Commission — who was, like Campos, favorable to sectorial planning —, was perhaps the economist who most often used the argumentation of the creation of external economies to justify planning. His defense of economic planning was expressed, for instance, in the following

statement:

"Capital formation in advanced countries may be left to market forces. In underdeveloped countries, however, and specially so in Brazil, capital is scarce and liable to be improductively applied in highly profitable activities. Its shortage thus becomes still more painfully felt in public utility industries, which naturally yield low profits. Therefore, investment planning in this industrial branch becomes one of the government's major economic tasks.

Initially, then, investment planning must aim to create productive economies. i.e., social capital that may allow the generation of increasing production profits in the remainder of productive activities. Such initial planning consists of the removal of those obstacles that hinder the country's economic development, applications being made for the improvement of public services, transportation, energy, harbors, etc. (...) which require a substantial share of governmental and international financing".<sup>57</sup>

The acknowledgement of the validity of the argumentation of external economies by neo-liberal economists like Bulhões (even if limited to investments in transportation and energy and stressing the inconveniences of direct state intervention) confirmed its acceptance in the country. Another major contribution toward this end was ECLA's recommendation of the use of the criterion of marginal social productivity in the selection of investments.

The second conception of planning that prevailed among developmentalists was ECLA's. Its basic difference with regard to the former one was that it aimed to guide investments starting from the totality of the country's economic structure on the basis of studies and projections of the economy's supply and demand tendencies.

The first presentation of their proposal was made at the fifth ECLA Plenary Meeting, held in Petrópolis, RJ, in 1953, and it took the form of a preliminary version of the now well-known Introdução à programação econômica,

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(57) Dias Carneiro, I., "Introdução ao desenvolvimento econômico", Revista de Ciências Sociais, December 1955/March 1956, p. 51.

elaborated under Jorge Ahumada's and Raul Prebisch's orientation.<sup>58</sup> Its technique consists, as we know, of the following procedures: (a) calculating a feasible growth rate by combining the savings rate (both internal and external, corrected by the variation in the terms of trade) and the capital/product ratio; (b) estimating the future outlook of the demand of the various productive sectors on the basis of consumption projections; (c) calculating and programming investments in the various sectors in accordance with the projected economic structure and taking into consideration the limitations of import capacity and the criterion of marginal social productivity (Kahn).

ECLA's proposal gave rise to an interesting controversy between Bulhões and Furtado. The former argued that ECLA had no knowledge of the actual dynamics of Brazilian growth, which was determined by the private sector. ECLA's method of "stipulating both the sum and the allocation of the investments required for the attainment of a given national income growth rate" was said to represent a misguided assumption of an "exogenous growth process".<sup>59</sup> According to Bulhões, Brazilian development had a Schumpeterian character that was based upon private capitalists' spirit. Except in the case of investments in energy, which generated external economies and concerning which the state might admittedly finance private investments, the economic development process was said to follow its natural course and could do without state planning and intervention. ECLA's planning was, in Bulhões's view, incompatible with market economy:

"What we wish to stress, therefore, is that in a spontaneously progressive economic system price relations are the essential basis for investment making, whereas in a planning system price relations result from projected investments. Thus, the departure from both the problem of prices and monetary problems found in ECLA's planning theory is no simple analytical process of approximations. (...) regard-

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(58) ECLA, *Introducción a la técnica de la programación*, U.N., E/CN 12/363, Santiago, July 1955.

(59) Bulhões, O.G., "Estudos sobre a programação do desenvolvimento econômico", *RCNE*, November/December 1953, p. 4.

ing these considerations, we are, as it seems, fully in a totalitarian economic regime".<sup>60</sup>

Furtado's reply stated that it was not enough to believe in spontaneous progress, but we must "know its mechanisms if we are to guide it and, whenever so required, accelerate it". He observed that ECLA's technique expresses a dynamic model of balanced growth that aims to serve as a basis to guide private investments and to have the state supplement them. Moreover, contrary to Bulhões's assertions, it was not correct to take for granted that in a planning system price relations result from projected investments. The objective of planning was not "to create an additional mechanism within the economy, but rather to promote a better use of resources so as to speed up development".<sup>61</sup>

Bulhões wrote a rejoinder wherein he reaffirmed his points of view. He claimed that ECLA's proposal aimed to force an increase in savings so as to put up with a predetermined developmental target, "as though the willingness to accumulate could not be stimulated by the willingness to invest".<sup>62</sup> In ECLA's planning, "private entrepreneurs no doubt have a share in production, but the wave of progress is neither their initiative nor the governmental sphere's".<sup>63</sup> Still more serious, in his view, was that ECLA's method opens up the way to state investments that take the place that would naturally be taken by private investments, were it not for the strait-jacket of programmed investments, which Bulhões claimed to be incompatible with private initiative's dynamics of accumulation.<sup>64</sup>

(60) Bulhões, O.G., "Estudos sobre a programação...", op.cit., p. 10.

(61) Furtado, C., "A programação do desenvolvimento econômico", RCNE, November/December 1953, p. 12.

(62) Bulhões, O.G., "Considerações adicionais sobre a programação do desenvolvimento econômico", RCNE, November/December 1953, p. 16.

(63) Idem.

(64) This debate took place in 1953, some months after Bulhões's and Furtado's intellectual mentors, i.e., respectively Gudin and Prebisch, had disagreed upon the same topic. The titles of the articles written by those two masters are suggestive of their content: Gudin's texts were titled "The

Furtado's new reply came in a different form, as a careful adaptation of ECLA's technique to the study of Brazilian economy. In co-operation with Regino Botti, Furtado elaborated (at the Joint ECLA/BNDE Commission) his well-known "Esboço de um programa de desenvolvimento para o Brasil". This study starts off from an analysis of the growth process in the period 1945/1955. Favorable external factors, exchange rate stability and the selection of imports with a view to industrialization were indicated as causes of an accelerated growth in the recent past. However, the study estimated a deterioration in the terms of trade which, combined to foreign debts, indicated that the pace of growth observed in the former quinquennium could hardly be imitated in the near future.<sup>65</sup> On the basis of the likely evolution of external factors and the external data on both the savings capacity and the economy's capital/product ratio the study concluded with the probable hypothesis that the per capita growth rate would reach merely 1.5% p.a. (or approximately 4.0% GDP growth). Any increase in that rate would be conditioned to a serious effort at planning, which might simultaneously expand the domestic and foreign savings rate, as well as raise the productivity of resource applications.

The subsequent stage in the study consisted of making a series of sectorial projections based on the not far more optimistic goal of reaching a per capita income growth of 2% p.a. The study then attempted to demonstrate that this goal, albeit relatively modest, entailed in itself a major effort to restructure the economy. To realize as much one had but to bear in mind the likely evolution of exports, as well as import substitution needs and the requirements to expand the infrastructure of basic services. By optimistically counting on a raise in the quantum of exports in the order of 6.5% p.a.,

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mystic of economic planning", whereas Prebisch's replies were titled "The mystic of balanced growth". Concerning this debate, see Magalhães, J.P.A., A controvérsia brasileira do desenvolvimento econômico, op.cit., chap. 1.

(65) Joint ECLA/BNDE Group, Esboço de um programa preliminar de desenvolvimento da economia brasileira, BNDE, 1955, mimeo, pp. 6-7.

one concluded that even so the ratio between imports and the GDP would have to be reduced from 14 to 10%, which was enough to indicate the import substitution effort the economy must be subjected to. This would imply a major effort to plan the infrastructure taking into account the physical limitations of Brazilian natural resources. It would also imply a careful planning of substitute investments and of the utilization of import capacity.<sup>66</sup>

Although ECLA's proposal for global planning was not adopted in Brazil, it no doubt made a large contribution to the prestige enjoyed by economic planning in the country. We should note that an influential portion of the largest national political party, the PSD, increasingly claimed the need to plan the economy. The president of the Economy and Finance Commission of the House of Representatives, PSD member Israel Pinheiro, repeated at every new speech the idea of the need to turn one's attention to the planning of economic development, instead of restricting economic policies to financial planning. It is no coincidence that such was to be the philosophy of President Juscelino Kubitschek's, a PSD member who got elected in 1955 with the slogan of "building fifty years in five". At IBESP, the enthusiasm for the prospects opened by Kubitschek's election led that agency to propose a thorough administrative reform with a view to reinforcing and institutionalizing planning, both aims centering around the guidance provided by a "National Planning, Co-ordination and Control Council" — the most advanced proposition made since CNPIC's idea of creating a Central Planning Board, back in 1944.<sup>67</sup>

For neo-liberals, the problem to be confronted, as we have noted, was not so much one of economic planning as such, but rather the state's direct

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(66) On the basis of forecasts about the demand for final products and the capacity to import, the study defends the need to give priority to capital goods imports, emphasizing import substitution in other areas. The imports of durable and non-durable goods should obey a program so as not to affect the effort at import substitution and to liberate resources.

(67) This proposal features in the January/March 1956 issue of Cadernos de Nosso Tempo, pp. 181-188.

intervention which they felt to result from it. According to Gudin, "Planning in the elementary sense of studying and pondering over what one intends to do is obviously indispensable both in the public and private sectors, as well as in any other activity in one's life. (...) The divergence begins when one shows an intention to invade the private initiative sector unnecessarily".<sup>68</sup>

This was also the basic sense of Bulhões's criticism to ECLA-oriented planning, as well as the spirit behind CNE's writings. The latter agency criticized, for instance, the March 1954 presidential message which, in referring to energy and transportation inadequacies, argued that it was no longer possible to wait for private initiative and that state investments were required.<sup>69</sup> CNE's opinion, voiced in a countless number of writings between 1952 and 1955, was that the government should redirect its resources to investments in the areas of health, education, and social work at large, leaving infrastructural sectors to the private sector's initiative, except in those situations calling for "pioneer investments".<sup>70</sup>

The sector in dispute in the triennium 1953/1955 was, of course, that of electric power. Neo-liberals, supported by non-nationalist developmentalists like Roberto Campos and Glycon de Paiva, endeavored to avoid the occurrence of a victory identical to that achieved by nationalists in the former quinquennium with respect to the oil campaign. They praised the creation of the Electrification Fund but advocated its utilization by private capital. They argued that the reason why foreign capital seemed uninterested in the energy sector was related to the insufficiently profitable service charges stipulated by the "historical cost" method. Roberto Campos stated that nationalism contradicted the prospects of its own adherents, for in cases like those of electric power and other sectors where there were long maturation

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(68) Quoted in section "Pontos de Vista", RBB, August 1953, p. 17.

(69) See RCNE, March/April 1953, pp. 54-55.

(70) This qualification appears in CNE, "Exposição Geral da Situação Econômica do Brasil - 1954", p. 40.



terms and low profitability nationalist wisdom should lie in stimulating foreign investments, thereby saving the scarce national capital for more profitable applications.<sup>71</sup> Developmentalists Américo Barbosa de Oliveira and Jesus Soares Pereira preferred to answer those arguments by forecasting the need to expand energetic supply and submitted their estimates in texts written with the clear purpose of giving support to perspectives that favored state control.<sup>72</sup>

One of the highlights in the debate about state investments came in the Interamerican Conference of Finance Ministers held at the Quitandinha Hotel in Petrópolis, RJ, in late 1954. The American delegate, George Humphrey, was not successful in his ode to free initiative: Prebisch advocated the need to rely on state investments for basic services and, to judge from the news reports of the time, he was enthusiastically supported by the Conference's audience.<sup>73</sup> Another important episode concerned Senator Othon Mader, who elaborated a project to discipline state intervention. Among other measures, Mader proposed partial or total privatization of undertakings in those cases where private initiative showed the "interest and ability to accept responsibility for those undertakings then being conducted by local governments and state agencies".<sup>74</sup>

Mader's project was welcomed by the CNE except where it concerned the qualification that state investments become legitimate when no interest is shown by private initiative. According to CNE's pronouncement, it was mistaken in principle to contemplate the possibility of any "lack of interest".<sup>75</sup>

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(71) See chapter 3.2, item ii, Part I of this work.

(72) See Econômica Brasileira, January/March 1955 and July/September 1955.

(73) See news report about the meeting in the October 1954 issue of OEF.

(74) Senate Legal Project no. 37, 1954, by Othon Mader, article 4.

(75) CNE's pronouncement about Mader's project was published in RCNE, September/October 1954, p. 9.

Given that the major political stimulus to all of those debates was decision-making with respect to the policies to be adopted in the electric power sector, it is immaterial whether we approach this topic from the vantage point of a dispute between "champions of state guidance" and "champions of private initiative", or between adherents to and opponents of nationalism. Electric power was the major topic in the divergences about foreign capital participation during that period. The problem of profit remittances was equally discussed, though not with as much enthusiasm. The new legislation dating from January 1953 authorized both the inflow and outflow of resources through the free exchange rate market, thereby overcoming the entire problem — which had been so emphatically brought up by Vargas in late 1951 — of including re-investments as part of the capital liable to be repatriated, as well as the problem of the capital that must serve as a basis for the calculation of remittable profits.

In this field of discussion the important news of the day was the generalized acceptance of the thesis that foreign capital did not solve the problem of disequilibria in the balance of payments. The evidence of this was made public by ECLA in a demonstration that the net balance of foreign investments in Latin America was markedly negative owing to profit remittances. The rejoinder to ECLA's evidence, which came from the U.S. National Export Association, only confirmed that statement. NEA restricted itself to stating that ECLA did not seem to acknowledge that foreign capital promotes an "enrichment effect" in the countries where it is applied. Socialist Heitor Ferreira Lima, in an article published in Revista Brasiliense, aptly advocated ECLA's point of view and asserted that the agency did not fail to acknowledge the positive contributions made by foreign capital, but merely pointed to the aggravation of foreign disequilibria, which, according to Ferreira Lima, were due to the lack of control over foreign investments. In this article dated 1955, he erroneously added that the Brazilian Communist Party itself favored foreign investments and referred to a recent document issued by the Party, which in his

understanding proposed to "attract the co-operation of both the government and foreign capitalists whose capital may be useful to national economy's independent development, serve industrialization, and subject itself to Brazilian legislation".<sup>76</sup>

Socialist Caio Prado Jr. did not share the views of his colleague Ferreira Lima, as he felt that the only healthy way of allowing foreign capital inflow was through financing. Prado Jr. claimed it essential to handle that problem on the strength of the need to prevent the country's economic decision-making centers from remaining abroad, and to block the invasion of the nation's spheres of social and political power by foreign economic power. He felt it to be preferable to import equipment than allow foreign manufacturers of capital goods to be installed in the country.<sup>77</sup> Needless to say that was a radical stance as compared to the views held by nationalist developmentalists, whose concern was merely to assure state capital the control over infrastructural and mining sectors as a way to make industrialization feasible.

Within the spectre of the stands taken with regard to foreign capital participation by radical and moderate nationalists, on the one hand, and "non-nationalists", on the other, there was a current of private sector developmentalists who held on to an eclectic position, reflecting the diversification of the positions taken by Brazilian entrepreneurs. A good example of this intermediate position is Nuno Fidelino de Figueiredo's reaction to SUMOC's Instruction no. 113, passed during Gudin's ministerial term in early 1955.

Instruction no. 113 authorized the import of capital goods by foreign companies without the corresponding exchange coverage and stipulated the con-

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(76) Ferreira Lima, H., "Capitais nacionais e investimentos estrangeiros", Revista Brasiliense, no. 1, 1955, pp. 129-149.

(77) Prado Jr., C., "Nacionalismo brasileiro e capitais estrangeiros", Revista Brasiliense, no. 1, 1955, pp. 80-107. Apart from this article and the aforementioned text by Ferreira Lima, Revista Brasiliense published in the year 1955 a third article about foreign capital by socialist author Elias Chaves Neto. The author criticized the National Electrification Fund on the grounds that it would generate favoritism towards foreign capital. See the article "Plano Nacional de Eletrificação" in the same issue of R.B., p. 57.

cession of a favorable exchange rate for imports financed from abroad. Nuno Figueiredo criticized that measure in defense of national capital.<sup>78</sup> He recalled that Brazilian legislation about foreign capital was among the most liberal ones in the world and restricted the free access of foreign capital solely to the mining and oil sectors. He stated, however, that between a liberal regime and an "authoritarian" and non-programmed system he would rather choose the former. He pointed out that the absorption of foreign capital was useful not so much for the misguided belief that it would solve the problems of the balance of payments as because it strengthened the import substitution process and the required assimilation of know-how. In Brazil, however, that assimilation was said to be taking place via discrimination against national capital, in view of Instruction no. 113.

The great drawback in this respect was claimed to lie in the fact that national entrepreneurs' imports were made through the ~~Stock Exchange~~ <sup>Auction Market</sup>, which led to the payment of an agio that made the exchange rate rise above the level found in the free market. Imports without exchange coverage gave foreign capital the advantage of avoiding both the introduction of foreign currencies into the country at the rate prevailing in the free market, and the subsequent payment of a higher rate for imports. The possibility (granted by Instruction no. 113) of obtaining an official exchange rate (Cr\$18.00/dollar) added to a moderate agio (Cr\$40.00), whenever imports were financed in foreign currency, did not actually amount to a compensation, as Instruction no. 113 stated that the application of that measure was subject to the availability of foreign credits. Figueiredo finally came to the following conclusion:

"The conclusions to be drawn from what has been discussed in this paragraph are twofold. On the one hand, it is not possible to contemplate solving the problem of foreign investments by the concession of new exchange rate facilities. On the other, it is absolutely neces-

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(78) Figueiredo, N.F., "Regulamentação do investimento estrangeiro no Brasil", Econômica Brasileira, July/September 1955, pp. 144-154.

sary, on the contrary, to find a means of regulating foreign capital on the basis of a system of incentives and priorities that are identical to both foreign and national companies. In other words, the advantages to be granted to foreign investments must not concern exchange rates (on the basis of a uniform exchange rate market with a minimum of regulations), but must rather be such that they may equally apply to national and foreign enterprises whenever they are in the same field of activity".<sup>79</sup>

Figueiredo's article seems to have elicited no replies. In the subsequent years, national entrepreneurs' complaints continued to be along the lines that Instruction no. 113 was not being complied with in regard to national entrepreneurs' imports covered by foreign financing, and that it therefore continued to favor foreign undertakings alone.

#### v. Distributive questions

The relative political liberalization of Vargas's governmental term enhanced a slow reinstatement of the distributist debate initiated in the mid-1940s and ousted by the subsequent conservatism. The political instability of the triennium 1953/1955 confirmed the climate favoring discussions about income and landed property distribution. There was not, of course, a debate like the one that was to follow in the decade of 1960, when the questions of income and land distribution rose to an outstanding place in economists' concerns and began to feature among the "basic reforms" which, as several of them believed, would be indispensable to resume economic development, then undergoing a crisis. In this sense, we may view as only occasional exceptions the statements made by some independent socialists like Hermes Lima, who, in their political speeches, alluded remotely to the problem in criticizing the country's poor income distribution.<sup>80</sup> That was still a stage of mere emer-

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(79) Figueiredo, N.F., "Regulamentação do investimento...", op.cit., p. 147.

(80) Hermes Lima was the major leader of the Brazilian Socialist Party with an independent orientation from PCB's.

gence of certain topic discussions which were essentially dissociated from any challenge to the feasibility of carrying on the industrialization process, as well as dissociated from any inquiry into the possibility of assuring widespread social benefits through the mere occurrence of that process. It is worth recalling, in this sense, that the reinsertion of PCB's intellectuals into the public debate was only just beginning.

The problem of income distribution was discussed in that period through three major themes: wage readjustments, accumulation of savings, and regional inequalities.

The stimulus for the economic discussion about wage stipulation came from the workers' mobilization in 1953 and from the prospect of a 100% wage raised claimed by workers and supported by Minister João Goulart. One of the most interesting highlights in that debate occurred when the President of the National Industrial Workers Confederation (CNTI) forwarded to the CNE a copy of the exposition made to the President of the Republic revindicating wage raises. Bulhões, then presiding over CNE, replied to that document with the statement that CNTI "may come to play a highly relevant role in the country's economic life if, instead of demanding that wages be adjusted to prices, it interferes in due time to fight the causes that tend to provoke price rises".<sup>81</sup> Shortly afterwards, at the request of Minister Oswaldo Aranha, CNE wrote a pronouncement where it suggested a 33% raise in the minimum wage payable so as to accompany the raise in average wages and not cost-of-living increases. CNE's argumentation was that one must not subvert the salary hierarchy:

"The minimum wage, as already stressed, is first of all a remuneration that must be compatible with the level of average salaries. (...) To push up the minimum wage level in order to raise the general remuneration of wage workers is to contemplate incrementing the corresponding quota of national income distribution without knowing whether the latter's size could accommodate it".<sup>82</sup>

(81) Bulhões, O.G., "Problemas referentes à remuneração do trabalho no Brasil", RCNE, March/April 1954, p. 52.

(82) CNE, "Parecer sobre o salário mínimo", RCNE, May/June 1954, p. 24.

Vargas decreed the 100% raise in the minimum wage, and Gudin reacted as follows:

"Considering an a posteriori assessment, this episode will have cost the country three great evils: (a) a considerable loss of real income, as represented by the fall in production, for the purpose of consumption and investment; (b) a dangerous belief among workers that they are entitled to the high standard of living they will enjoy during the first two or three months following the wage raise, during which prices will not go up in proportion to salaries; should this thesis prevail, we would be condemned to perpetual inflation; (c) secondarily, the disorganization promoted in private economy by the reduction of both investments and the pace of progress will reinforce the demagogic thesis that in Brazil the state alone is able to make achievements".<sup>83</sup>

This subject was not dealt with in specialized economic literature by economists from other currents of thought. Among developmentalists, distributive questions were approached from the perspective of the establishment of domestic savings, no reference being made to the question of minimum wage readjustments. The two major debates about this topic, of which Celso Furtado was the protagonist, synthesized both ECLA's concern about raising the savings level and the nationalist developmentalist concern about expanding state participation in the economy, no reference being made to the current problem of a 100% wage readjustment.

The first of those debates, already mentioned in this work, centered around CNE's Report for 1954, where Furtado challenged the thesis that the state was using the mechanism of forced savings to increase its expenditures at the expense of the private sector's consumption and investment.

The second one, to which we have referred in chapter 3.3, item ii of Part I, had its starting point in a chapter of the text written by the Joint ECLA/BNDE Group stating that in the recent past, in the economy's private sec-

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(83) Gudin, E., "Salário Mínimo", D.E., September 1954, p. 11.

tor, there had been an income distribution that favored capital and not labor, but the process had not resulted in an enlargement of the private savings rate. It is needless to say that this argumentation aimed to maintain that in the Brazilian case income concentration did not lead to a significant increase in private savings. João Paulo de Almeida Magalhães, from CNI, replied to this by asserting that, since the entrepreneurial sector's savings rate is stable in principle, the transfer of income in favor of high income classes always entails a rise in the economy's savings rate, for the marginal savings rate in high income social strata is higher than that of wage-earners, which is equal to zero in Brazil. Magalhães felt that the work written by the Joint ECLA/BNDE Group reflected pessimism toward the private sector's contribution to national economic development.<sup>84</sup>

Furtado replied by denying that the group had any such views. He argued that Magalhães was wrong in taking for granted that the savings rate of the capitalist class was necessarily stable. Such assumption could prove true in the long run, but large variations were liable to occur in the short run. While reaffirming his point of view, Furtado suggested that the increment of investments in public works could be "a means of providing the private sector with the funds it lacks owing to its low savings rate".<sup>85</sup>

The third topic concerning income distribution dealt with in that period was that of regional inequalities. Three simultaneous contributions fostered the debate about this topic, which had thus far been conducted at a rather poor analytical level: a text by Hans Singer, another one by Vargas's Economic Advisory Board, and the Joint Brazil-USA Commission's Report.

The first significant economic study about the problem of economic development in the Northeast was made by Hans Singer in 1953.<sup>86</sup> The author

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(84) Magalhães, J.P.A., "Setor privado e poupança", Econômica Brasileira, January/March 1956, pp. 44-46.

(85) Furtado, C., "Setor privado e poupança", Econômica Brasileira, April/June 1956, pp. 100-102.

(86) Singer, H.W., "Estudo sobre o desenvolvimento econômico do Nordeste", Comissão de Desenvolvimento Econômico de Pernambuco, Recife, 1962 (the first edition of this text was published by BNDE, mimeo, 1953).



made a survey of the relative backwardness of the northeast and made some estimates about the investments required to raise northeastern income up to the Brazilian average. He was optimistic with regard to the region's developmental prospects and listed a number of suggestions. Moreover, he made a pioneer analysis of the causes of regional inequalities in Brazil.

Singer's contribution was read with great interest by Brazilian economists concerned with the northeastern regional question. At the time Singer wrote his study, Vargas's Economic Advisory Board was deeply involved with that set of problems. It had been naturally led to an analysis of regional disequilibria because its head, Rômulo de Almeida, had been entrusted with forming the Northeastern Bank and also because Vargas had ordered studies from his advisors to help the action of the National Commission for Northeastern Planning. The group prepared a text titled "Planning for Drought Fighting", where we already find some complimentary references to Singer's work. The text analyzes the causes of the inequalities and discusses some solutions. It is worthwhile reproducing the passage where that analysis is introduced:

"The major economic problem to consider is that of the balance between the economy of the Northeast, or its state economies as seen separately, and that of the rest of Brazil, or rather the South. (...)

The most noticeable fact is that northeastern states (including Bahia) make high contributions to Brazilian exports and have little participation in imports. The structure of the region's trade is characterized by a large balance in trade relations with foreign countries and a heavy deficit in domestic trade relations. (...)

Given specially that they sell [their products at an artificially low exchange rate], the economic effect thereof is a disequilibrium in the terms of trade and a de-capitalization, owing to the fact that they sell at internationally competitive prices and buy (even when there is no gap between the official exchange rate and the free exchange rate) at shortage prices or at the prices of an inevitable protection of the domestic market (sales price at Cr\$18.50 and purchasing prices from the South at, say, Cr\$40.00, plus the onus of the high cost of domestic transportation, particularly coastwise navigation,

which is so vital to the Northeast)".<sup>87</sup>

It was therefore suggested, first of all, that CEXIM give priority to northeastern imports and that exchange rate subsidies be granted to those imports that were essential to the region. Moreover, it was recommended that, without damaging the national balance of payments, a policy of minimum prices and free exchange rate be enforced for exports. Such measures, however, would still be rather insufficient:

"This problem of disequilibrium and de-capitalization, however, cannot be satisfactorily solved by such means: it must be faced, above all, through a program of compensatory federal investments designed to restore to the Northeast, generally speaking, the loss resulting from that de-capitalization, and in direct terms, to increase its demand for imports in competition with the South, following the general priority criteria".<sup>88</sup>

The document further pointed out that the problem of de-capitalization was reinforced by an unfavorable taxation system and by the migration of capital and skilled labor, which, as a consequence of the original de-capitalization, moved on to the more developed centers. It explained that "the tendency to a concentration of investments (both industrial and agricultural) in a unified national economy also determines a higher marginal capital productivity where there are larger 'external economies' as an effect of the market complementarity and density that are characteristic of areas of concentration".<sup>89</sup>

In order for that tendency to be altered some basic facilities would have to be introduced, such as energy, transportation, and certain raw materials. It would be necessary, in short, to enforce "a program of basic federal investments in public works and services, along with supplementary investments in

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(87) Banco do Nordeste do Brasil (Comissão Incorporadora), Planejamento do combate às secas, study elaborated at the Economic Advisory Board of the Presidency of the Republic, mimeo, November 1953, pp. 7-8.

(88) Idem, p. 11.

(89) Idem, p. 12.

credits for local private or state undertakings that may reduce the handicaps in relation to the South and hasten the process of attracting and holding capital into the Northeast".<sup>90</sup>

The Joint Brazil-USA Commission made a similar analysis. Chapter II of its Final Report, headed "Avanços e retardos na economia brasileira", begins with the statement that "the various Brazilian regions, just like the different sectors of [Brazil's] economy have had an unequal growth in the past eleven years".<sup>91</sup> Later ahead the Report states that the disparity in the regional growth rate has been one of the most outstanding features of Brazilian evolution between 1932 and 1952.<sup>92</sup> And it estimates the per capita growth rate in the more advanced states (Rio de Janeiro, São Paulo, Minas Gerais, Paraná, the Federal District, and Espírito Santo) to have been 50%, as compared to only 15% in Mato Grosso and Goiás, 8 to 10% in northern states, and approximately 4% in northeastern states.

According to that text, such disequilibria would be "unavoidable in the current stage of development" and would tend to become cumulative, as "industrialization naturally tends to come faster in those regions that offer more favorable conditions in terms of both human and material resources, and of high income consumer markets".<sup>93</sup>

Roberto Campos, from the Joint Brazil-USA Commission's staff, listed the following reasons for the inequalities in regional income distribution: (a) the regressiveness of the fiscal system, given the predominance of the consumption tax over the income tax, which primarily affects the more backward regions; (b) unfavorable trade relations, as the latter regions export at overvalued rates and make few imports; and (c) the drainage of human resources.<sup>94</sup>

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(90) Banco do Nordeste do Brasil, Planejamento do combate..., op.cit., pp.12-13.

(91) Comissão Mista Brasil-EUA, Relatório Geral, op.cit., p. 42.

(92) Idem, p. 43.

(93) Idem, p. 44.

(94) Campos, R., "A crise econômica brasileira", D.E., November 1953, pp. 212-244.

Campos felt that the correction of those disequilibria was a "complex and difficult cosmic matter regarding which economists have little to say".<sup>95</sup> In his view, a merely economic reasoning would lead into concentrating investments in the areas with higher productivity. The humanitarian perspective was the one thing that led to a rejection of such postulate. Campos recommended an intermediary position whereby one could make some exceptions to the criterion of productivity so as to arrange for the development of backward regions.

Let us finally get on to our last topic. The discussion about the question of landed property distribution received some important stimuli in the period under examination. In the first place, the National Agrarian Policies Council, created by Vargas in 1951, became a relatively active center for studies about that problem. Second, parliamentary debates about the topic were being revived around legislative projects submitted to the National Congress. Third, a Latin American Seminar on Land Problems was held in Campinas, SP, in 1953, under the auspices of both the Brazilian government and the U.N.<sup>96</sup>

In 1952, Vargas approved of a document elaborated at CNPA by Thomaz Pompeu Accioly Borges defining the guidelines for a land reform in Brazil.<sup>97</sup> Its text shows some advanced proposals that were to be the object of a vivid national and parliamentary debate a decade later. Reference is made, for instance, to the need to make a constitutional reform to get round the clause calling for cash indemnifications in the event of expropriations of unproductive latifundia, and to the need to make an anticipated expropriation of those latifundia that might increase their value as a consequence of major public works. Still in 1952, CNPA drew up a draft project to legislate about irrigation in the drought area, including prior expropriation of the areas located

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(95) Campos, R., "A crise econômica...", op.cit., p. 43.

(96) Ministério da Agricultura, CNPA, Os problemas da terra no Brasil e na América Latina - Documentário e conclusões do Seminário Latino-Americano sobre Problemas da Terra, Rio de Janeiro, 1954.

(97) Ministério da Agricultura, CNPA, "Diretrizes para a reforma agrária", in Reforma agrária no Brasil - Estudos e projetos, Rio de Janeiro, 1956, pp. 23-26.

within the perimeter to be irrigated, plus its wastelands and outskirts. The National Economic Council, with the exception of council member Humberto Bastos, who diverged from his fellow counselors, wrote a pronouncement objecting to that measure, which in that agency's view would be "the heaviest of any sanctions to be applied" and would elicit an unfavorable "psychological reaction from a population that is rather attached to the land".<sup>98</sup> CNPA replied by asserting that CNE's stance would lead into repeating a mistake already made as of the construction of dams in the northeast and in the Rio de Janeiro lowlands, when the irrigated areas could not be explored later for colonization purposes or for any other collective end. As for the adverse psychological reaction to be elicited by that measure, according to CNE, CNPA argued that it applied only to "a negligible minority of large landholders established at irrigation basins, but would facilitate access to the land by a considerable number of farmers who are not landowners".<sup>99</sup>

Apart from the foregoing project, CNPA elaborated four other projects: one creating the National Irrigation and Colonization Institute (which was passed as a law in January 1954); one about access to agricultural exploration (which closely followed the general guidelines formerly approved by Vargas); one about rural leasing and sharecropping; and one creating a Brazilian Council for Renewable Natural Resources.<sup>100</sup>

The examination of those attempts at transforming agricultural reality are beyond the scope of the present study. We mention them solely to record the existence of redistributist concerns within Vargas's developmentalist government.<sup>101</sup>

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(98) RCNE, November/December 1952, p. 12. CNE's pronouncement was signed by all council members except Humberto Bastos, who disagreed with it.

(99) Ministério da Agricultura, CNPA, "Irrigação no polígono das secas - Exposição de motivos", in Reforma agrária no Brasil..., op.cit., p. 57.

(100) See Ministério da Agricultura, CNPA, Reforma agrária no Brasil..., op.cit.

(101) S. Draibe's earlier quoted thesis gives emphasis to this aspect.

Vargas supported the holding of the Latin American Seminar on Land Problems, sponsored by the U.N. in Campinas in 1953. The meeting gathered over one hundred technical experts representing seventeen governments and nine international organizations, who discussed widely diversified themes related to the question of the agrarian structure. Here again, an examination of the Seminar's documents would take us beyond the objectives of the present work. Therefore, it suffices to record the occurrence of a number of discussions relating the land reform to economic development. The summaries of the debates conducted at the various workshops during the Seminar indicate, as might be expected, a predominance of the concern about the likely effects of a land reform on productivity, discussions being steered toward major questions, like that of the extent of land partitioning (the optimum size of properties) and that of the measures that should be attendant upon the land reform. As a rule, the positions taken at the Seminar were openly favorable to carrying out a re-structuralization of land property.

The Brazilian Communist Party still had not reached a stage in its political conduct that might lead it to discuss and support initiatives like CNPA's projects and the Campinas Seminar. The participation of PCB socialists in the public debate about the land reform was to be resumed only as of 1955, when the party began to be reintegrated into a "not altogether clandestine" political life. The publication of the first few issues of Revista Brasileira, including, for instance, an article by Samuel Schattan about the land reform, is indicative of that reintegration.<sup>102</sup>

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(102) See, for instance, Schattan, S., "Reforma agrária", Revista Brasileira, no. 1, 1959, pp. 89-100.

### 3. General Features of Economic Thought in the Boom and Crisis Stages of Developmentalism (1956/1964)

#### 3.1. The Boom Phase

During the 1955 presidential campaign Juscelino Kubitschek announced that in his governmental term he would build fifty years into five. In the first few days of his term he installed the National Development Council, which formulated and accompanied the execution of the major instrument of planning in all of the country's history — the Target Plan. By 1956, the country had overcome the situation of perplexity and indefiniteness of economic directives which accompanied the political crisis of the former years. Brazilian society, or at any rate its intellectual, political and entrepreneurial elites actually seemed to realize the changes at a time when developmentalist ideology was being incorporated into the government's official rhetoric.

Developmentalist economic thought, which had been maturing in the former ten years, had reached its peak stage. In other words,

1) The planned industrialization project became widely diffused in Brazilian economic literature, and what is more, it may be said to have dominated neo-liberalism in that literature. The latter, though its followers attempted a reaction, was debilitated and placed in a defensive position. At the offensive was socialist economic thinking, which, during that boom period, was to help disseminate some essential elements of the developmentalist crisis that would take place between 1961 and 1964.

2) Economic reflexion became essentially subordinated to the discussions about the problem of the country's economic development.

Unlike our earlier chapters, we shall restrict ourselves in the following pages to point out the essential features of economic thought during this period and the subsequent stage — that of the developmentalist crisis (1961/1964). We are inevitably led to begin our description by a characteri-

zation of the economic and political conjunctures of those periods, since the evolution of the economic debate was essentially marked by that background.

#### i. The prevailing conjuncture

The Kubitschek period has already been sufficiently analyzed from the point of view of its economy, its political life and even its ideology.<sup>1</sup> Analyses invariably take the developmental policy guided by the Target Plan as their fundamental source of reference. At the level of political analyses there is unanimity concerning the idea that the secret of a relative political stability must lie in the relations between political variables and economic development. According to M.V.M. Benevides, "the political stability of Kubitschek's government was the outcome of a favorable conjuncture in which the Armed Forces (notably the Army) and the Congress (majoritarian PSD-PTB alliance) acted in convergence so as to support economic policy, whose nucleus was the Target Plan".<sup>2</sup>

In the field of economic analysis there are two interpretations about the intensive growth process observed in the period 1956/1961, when the average annual GDP growth rate was 7.4% and the industrial expansion rate was 10.1%.

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(1) Among the major studies we find Lessa, C., Quinze anos de política econômica, São Paulo, Brasiliense, 1982; Tavares, M.C., "Auge e declínio do processo de substituição de importações no Brasil", in Da substituição de importações ao capitalismo financeiro, Rio de Janeiro, Zahar, 1973; Baer, W., A industrialização e o desenvolvimento econômico no Brasil, Rio de Janeiro, FGV, 1966; Sochaczewski, A.C., Financial and economic development of Brazil, 1952-1968, Ph.D. thesis, London School of Economics, London, mimeo, 1980; Skidmore, T., Brasil de Getúlio Vargas a Castelo Branco (1930-1964), Rio de Janeiro, Paz e Terra, 1975; Benevides, M.V.M., O governo Kubitschek, desenvolvimento econômico e estabilidade política (1956-1961), Rio de Janeiro, Paz e Terra, 1976; Lafer, C., The planning process and political system in Brazil: A study of Kubitschek's Target Plan (1956-1961), Ph.D. thesis, Cornell University, Cornell, 1970, mimeo; Sola, L., The political and ideological constraints to economic management in Brazil, 1945-1963, Ph.D. thesis, University of Oxford, mimeo, 1982; and Cardoso, M.C., Ideologia do desenvolvimentismo. Brasil JK-JQ, Rio de Janeiro, Paz e Terra, 1978.

(2) Benevides, Maria Victoria M., O governo Kubitschek..., op.cit. Skidmore, in his Brasil de Getúlio Vargas a Castelo..., op.cit., refers to Kubitschek's governmental period as "The years of confidence". The major in-depth study about the relation between the process of planning and execution of developmental policies, on the one hand, and the Brazilian political system, on the other, is C. Lafer's thesis, op.cit. (see note 1).



In ECLA's approach, that was a final stage in which the import substitution process had been firmly established as the motive power for the country's growth. According to an approach that seeks to replace ECLA's analysis, that would have been the initial phase of the first endogenously generated growth cycle, activated by the global dynamics of accumulation engendered by the interaction between the production and consumption goods sectors.<sup>3</sup>

Aside from the interpretations as to the causes of economic dynamics, there is a consensus that the basic constitution of the country's new economic structure was coming to an end, in a stage when economic planning first showed its decisive impact on the economy. Under the co-ordination of the Target Plan huge investments were made in the infrastructure of energy and transportation services, as well as in the major sectors of heavy industry.

As we know, the Plan selected five priority areas, viz., energy, transportation, heavy industry, food, and education, albeit channelling the better part of the financial resources available to the first three of them. It divided the five areas into thirty subsectorial "targets" and identified the construction of Brasília as an additional priority target. Whereas not all of the targets were fully achieved and some even met with failure, the overall result is considered most remarkable by all those who study that period.<sup>4</sup>

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(3) Tavares, M.C., Acumulação de capital e industrialização no Brasil, Associate Professorship thesis submitted to FEA/UFRJ, mimeo, chapter II.

(4) Some of the figures of that ambitious project suffice to show its intended scope and the success attained by governmental action: (a) approximately 82% of the projected expansion in the capacity to generate electric power (which was 3.2 million KW in 1955) were attained, i.e., 1,650 million KW were installed between 1956 and 1960; (b) the projected expansion for oil drilling was in the order of 6,000 to 100,000 barrels/day, and by 1960 extraction already reached 75,000 barrels/day; (c) steel production capacity was expanded by 650,000 tons and reached a total of 1,860 million tons by 1960; cement production went up from 3,600 to 4,420 million tons; the results of both sectors reached approximately 60% of the forecasted goals; (d) the automobile industry was implemented and produced 133 thousand vehicles during that period (against a forecast of 170 thousand vehicles), and it reached a nationalization index of approximately 75% as compared to a forecast of 50% for automobiles and 95% for buses and trucks.

The investment policy was in fact the main axle of economic policy during Kubitschek's government, subordinating monetary and exchange rate policies even amidst a growing inflation and serious difficulties in the balance of payments.

The period began with a raise in the inflation rate (24.4% in 1956 against 12.4% in 1955), which was successfully contained in 1957 at the level of 7% p.a. In 1958, however, and specially as of its second half, prices began to soar up. In that year, inflation reached 24.3%, and the three subsequent years showed rates of 39.5, 30.5, and 47.7%, respectively.<sup>5</sup> In 1958, hoping to introduce a more consistent policy to fight inflation, Kubitschek replaced his Finance Minister, José Maria Alkmim, by Lucas Lopes. The latter, who counted on the support of Roberto Campos's (then nominated for the office of President of BNDE, formerly occupied by Lucas Lopes), elaborated and tried to enforce a "Monetary Stabilization Program".<sup>6</sup> With that program he also attempted to obtain the IMF's support to renegotiate the growing Brazilian foreign debt. The Program was abandoned by mid-1959, when Kubitschek broke up relations with the IMF as a reaction to the Fund's demands for a radicalization of anti-inflationary policies, and replaced Lucas Lopes by the President of Bank of Brazil, Sebastião Paes de Almeida, who, incidentally, had been going against Lopes's instructions to restrict credit while still at the Bank of Brazil. Almeida remained in office up to the end of Kubitschek's government and endorsed the President's developmentalist policy.

In the foreign trade area, the significant fact was the constant deficit in the balance of payments of goods and services, which not even the heavy inflow of foreign capital initiated in 1956 succeeded in offsetting. Exports, contrary to common belief, received adequate incentives from the ex-

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(5) Source: IGP-FGV (index of domestic supply).

(6) Ministério da Fazenda, Programa de estabilização monetária para o período de setembro de 1958 a dezembro de 1959, Rio de Janeiro, 1958.

change rate devaluation, their discouragement being attributable to other factors, among which was a strong deterioration in the terms of trade.<sup>7</sup>

The great landmark of the exchange rate policy was Law no. 3244 of August 1957. Since 1954, a current of opinion led by Whitaker and Campos and supported by the IMF had been preaching the unification of the exchange rates — and therefore the discontinuation of Instruction no. 70, which had instituted multiple exchange rates as of 1953. Part of their proposition was the idea (in consonance with industrial interests) that protection to national production would begin to be exercised by the new tariff code then being elaborated at the Finance Ministry, thus replacing the protectionism implicit in the mechanism of differential exchange rates. Law no. 3244 effectively enforced a new tariff system and created the Customs Policy Commission, but it maintained the multiple rate system after merely simplifying it. Exchange rates were reduced from seven to four, i.e., the "free market" was preserved for capital and tourism, ~~as well as for~~ the category of preferential imports also remained unchanged (oil, wheat, and some other items), while the other five import categories were cut down to only two.

The tariff and exchange rate reform complied with developmentalist objectives. In the first place, customs protectionism was definitively enforced by the system of "ad valorem" tariffs, which avoided inflationary erosion. We must note that there was virtually no liberal opposition to the tariff reform, a fact that is suggestive of the maturity attained by the developmentalist project, as well as of how far back in the past were Roberto Simonsen's vehement protectionist claims. Secondly, the federal government's tax collection was increased. Thirdly, the generalized stimulus to capital goods imports came to an end, protection being granted to the implementation of the industrial sector responsible for manufacturing those goods, although the capacity

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(7) See on the subject Sochaczewski, A.C., Financial and economic development..., op.cit., pp. 92-96.

to select imports was preserved.

## ii. Economic thought

Both the exchange rate policy and the monetary policy were overdetermined by the developmentalist policy during Kubitschek's government. The mot d'ordre was to further the industrialization process. This major proposal of Kubitschek's — which, according to researchers of that period, had a wide political and ideological legitimacy — was fully reflected in the specialized economic literature.

The inspiration for it came from the government's own officials texts. The Economic Development Council, created in 1956 to reformulate and co-ordinate the investment policy, was to promote from its very beginning a series of sectorial economic studies that were carried out with the purpose of giving subsidies to economic planning. The philosophy guiding economic reflexion during Kubitschek's government was expressed in that agency's documents that accompanied the launching and execution of that program. In those days, when one already went from conceptualization to the practice and execution of economic planning, the problem of the legitimation of industrialization planning was already overcome.

The preponderance of developmentalist ideology was also expressed through the debate about the questions of the balance of payments and inflation. In short, that debate had the following basic characteristics:

a) The decision about the Exchange Rate Reform of 1957 reversed a cycle of discussions which had actually begun in 1947 and had been intensified as of 1952. The subsequent difficulties of restoring equilibrium to the balance of payments and the IMF's pressure towards a unification of the exchange rates, however, prevented that reversal from being a radical one. Those who defended the project in Brazil — mostly neo-liberals who had been initially defeated in 1955 (Whitaker resigned when the project was rejected) and defeated again in 1957 — continued to repeat the arguments they had raised between

1954 and 1957, concentrating on the idea of the need to promote exports and discourage imports, as well as on the idea that the Reform would not be an inflationary one.<sup>8</sup> The advocacy of that thesis by this group was insistent and reiterated, until such time as, soon after Jânio Quadros's installation in the Presidential Office, his Finance Minister, Clemente Mariani, performed a reform that was close to the intended one, under a wave of protests coming from socialists.

b) The structuralist analysis about the disequilibrium in the balance of payments, as we have seen in earlier chapters, was often employed in the country already during the first half of the 1950s. It continued to be so during the second half of the decade, this time by economists in the nationalist developmentalist current and in the private sector developmentalist current. The innovations in the field of discussions about the shortage of foreign currency were two: first, there was an incorporation of ECLA's analysis about the lack of import capacity into the structuralist interpretation about the causes of inflation, foreign disequilibria beginning to feature as one of the "major causes" in the inflationary process; second, there was a wider acceptance of the old idea that freedom in the remittance of profits abroad caused some serious inconveniences in the exchange rate area, thereby jeopardizing the developmental policy. This, as we have seen in the section dealing with the socialist current, was to be a point to which the economists in that

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(8) The thesis that the Reform would not have an inflationary impact was that, first of all, those who traded imported products were already selling them for their highest prices; secondly, the devaluation would merely substitute the agios charged by the government, and thirdly, its effect upon the issue of means of payment would be neutral. See Roberto Campos's article "Reforma cambial", D.E., July/August 1956, pp. 75-91. See also Gu-din's articles "A reforma cambial" and "O problema cambial", C.M., issues of July 1956 and September 1959, respectively; and Bulhões's article "A reforma do sistema cambial e das tarifas alfandegárias", C.M., June 1956. Antonio Delfim Neto agreed to the adoption of a single flexible rate but stressed that this measure would depend both upon a prior decision concerning a long-term policy for coffee and upon the previous checking of the inflationary process (Delfim Neto, A., "O preço do café e as expectativas dos importadores", D.E., September/October 1957, pp. 63-73).

current turned their attention as a way to associate the problems of national development to the question of the need to initiate an anti-imperialistic struggle in the country. Those two innovations are part of a wide process of subordinating the debate about monetary and foreign exchange issues to developmentalist problems.

c) The intensity of the debate about inflation was inversely proportional to that of the debate about the exchange rate reform. In 1956 and 1957 there was a relative decline in the attention given to the former topic, which is easily explained by the fact that the declining price trend initiated in 1955 was being maintained. The inflationary upsurge which began in 1958, along with the adoption of the Monetary Stabilization Program and the threat represented by IMF's position toward developmentalist policies rekindled the flames of that debate as of 1958. Neo-liberals intensified their traditional criticisms against wage raises and public sector deficits, which they related not only to inflation but also to the excessive state intervention into the economy. Wage raises and public deficits were also the two points identified as causes of inflation by developmentalists linked to private entrepreneurs, who were nevertheless careful to object to those aspects of the Stabilization Program which affected the private sector, i.e., tax raises and credit restrictions.

The resurgence of that debate was totally linked to developmentalist problems. Significantly enough, the Monetary Stabilization Program, abandoned in 1959 on behalf of the continuity of development, began with a few developmentalist qualifications:

"The purpose of the program now submitted to the Congress and the Nation is to allow the country's development, through an effort of monetary stabilization, to take place under conditions of economic equilibrium and social stability. (...) The effort of stabilization is perfectly in keeping with the execution of the Government's Target Plan".<sup>9</sup>

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(9) Programa de Estabilização Monetária, op.cit., pp. I-II. However, the Program forecast a 30% reduction in the federal investment budget in the areas

d) The structuralist analysis about inflation was being diffused in the country. In the preceding chapter we have seen how some elements of that analysis already featured in the debate about monetary stabilization in the years 1953/1955. Those elements continued to appear in the following years. At a conference held at ISEB in 1957 Furtado was to present the basic points of ECLA's argumentation opposing monetary orthodoxy, though still not arranging the pieces of the structuralist interpretation as did his colleagues Noyola Vasquez, Sunkel, and Aníbal Pinto, from ECLA.<sup>10</sup> The structuralist interpretation proper about inflation, which was to systematize some elements scattered in ECLA's writings about that topic, had its starting point in an article written by Vasquez in 1956 and was employed in the analysis of Chilean inflation in ECLA's Economic Survey for 1957. Also in 1957, Sunkel systematized the theory contained in that study in an article published in Econômica Brasileira.<sup>11</sup> From then onwards, the structuralist account was progressively diffused throughout the country.<sup>12</sup>

Its assimilation, however, was still restricted to economists in the nationalist developmentalist current. Private sector developmentalists and, in a way, some socialist economists had at best some ideological sympathy for that approach, given their opposition to monetarist orthodoxy. The major challenge to structuralist theory in Brazil was to be written by Roberto Campos in his now classical article published in 1961.<sup>13</sup>

To further industrialization via planning, expanding the infrastructure of basic goods and services, assuring the necessary imports and avoiding any interruption of the developmental process by contractionist policies were, in

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of highway transportation and port systems (vol. II).

- (10) Furtado, C., Perspectivas da economia brasileira, Rio de Janeiro, ISEB, 1958, pp. 67-73. See chapter 1.2, Part I of the present work.
- (11) Sunkel, O., "Um esquema geral para a análise da inflação", Econômica Brasileira, July/December 1957, pp. 361-377.
- (12) Among the major articles we find Aníbal Pinto Santa Cruz's "Estabilidade e desenvolvimento", which Econômica Brasileira published in the heat of

short, the questions guiding the period's economic thought. The dominance of developmentalism reached as far as 1961. In the period under examination there already emerged with growing importance two topics that were to occupy outstanding places in the early 1960s in the hierarchy of the questions debated.

In the first place there was a revival of the discussion of topics associated to nationalism, an ideology that resurged after a temporary decline as of the end of the oil campaign in 1952. Socialists, occasionally accompanied by nationalist developmentalists, took up the issue once again and emphasized three aspects: (a) they reinforced the defense of Petrobrás's monopoly and of state control over electric power production and distribution; (b) they campaigned constantly for the control over profit remittances, identifying these as the major causal factor in balance-of-payment deficits; and (c) they related IMF's orthodox proposals to imperialism, assigning them the character of an imperialistic opposition to Brazilian industrial development. Socialists also opposed the proposal of "pan-Americanism" whereby Juscelino Kubitschek sought American support for his developmentalist project.

Second, distributive questions began to emerge as relevant topics. The reflexion about the land reform, which had been almost non-existent throughout most of Dutra's government and reactivated during both Vargas's government and the 1955 presidential campaign, started gaining some ground thenceforward, thus heralding the heat of that debate in the 1960s.<sup>14</sup> Already in 1955 there came the Congress for Northeastern Rescue, held in Recife, PE, and in 1956 a Conference of Northeastern Bishops was held in Garanhuns, PE, both

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the dispute with the IMF, in its issue of July/December 1959, pp. 3-30.

- (13) Campos, R., "Two views on inflation in Latin America", in Hirschman, R. (ed.), Latin American issues, New York, Twentieth Century Foundation, 1961, pp. 81-94.
- (14) As pointed out earlier, whenever the land reform issue was debated in the period 1945-1964 this occurred essentially under the stimulation of the submission of legislative projects to the National Congress. In regard to these projects see Aspásia Camargo's historical review "A questão agrária: Crise do poder e reformas de base (1930-1964)", in Brasil Republicano, coll. História Geral da Civilização Brasileira, vol. 10, São Paulo, Diffel.



occasions highlighting the need to undertake a reform in the region's landed property structure so as to make its development feasible and to promote social justice. Those seminars were also important occasions to rekindle the fire of the debate about the other major distributive question of the period, i.e., the problem of regional inequalities. The studies and analyses conducted by the Working Group for Northeastern Development, created by Kubitschek and directed by Furtado, as well as the interventions of a busy seminar organized by CNI in Garanhuns in 1959, were also expressive points in the debate about northeastern development, which gained a rather large scope.

In the years of the developmentalist boom the currents of thought had few new characteristics as compared to the first half of the 1950s.

Neo-liberals continued to voice their criticisms against the lack of monetary stability and the increase of governmental intervention. Their vehicles to disseminate their ideas, however, were not immune to the period's ideological advance. At FVG, they kept RBE as a vehicle that was also open to heterodox academic thinking. On the other hand, they imprinted a markedly anti-inflationary stamp upon Conjuntura Econômica. The publication that best served the presentation of their ideas was the journal Carta Mensal, which published Gudin's and Bulhões's conferences at CNC's Economic Council. The National Economic Council, which changed slowly from a conservative composition into a relatively eclectic one, published its journal with an equally eclectic editorial line, thus reflecting, for example, the gathering at the Economic Department of neo-liberal Denio Nogueira, head of the Finance Division, and developmentalists Genival de Almeida Santos and Aníbal Villela, heads of the Foreign Trade Division and the Energy and Transportation Division, respectively. Finally, the journal Digesto Econômico, which had from its beginning published articles by different currents, albeit maintaining a somewhat neo-liberal inclination, preserved its traditional stance but no longer had the importance it had enjoyed in the days when it had virtually no competitors along its line.

With regard to "non-nationalist" developmentalists, who had never had their own media — save, perhaps, for Valentim Bouças's monthly journal Observador Econômico e Financeiro — there was a growing approximation to neo-liberal positions, although they did not actually relinquish their own basic principles. This is easy to understand. At that boom stage of developmentalism the questions of whether the country should be industrialized or whether industrialization should be planned no longer had the significance of earlier times. Campos, for instance, could simply ignore Gudin's opposition to industrialization policies, just as the latter could forgive Campos's inclination toward planning, for after all, industrialization planning was already a fait accompli, and both could work together in their defense of monetary stabilization and foreign capital.

Private sector developmentalists continued, as in the past, to combine the defense of industrialization with the defense of entrepreneurs' interests. They gained a new and important journal, Desenvolvimento e Conjuntura, edited by CNI and published up to the mid-1960s. For a while, they continued to count on Revista de Ciências Econômicas, published in São Paulo, which had a more academic content, and by 1959 they also gained the journal Síntese Econômica, Política e Social, published by the Pontifical Catholic University of Rio de Janeiro.

Nationalist developmentalists, who were at the climax of their participation in the decision-making process about industrialization policies through BNDE, the Economic Development Council, SUDENE, etc. broadcast their ideas mostly through the journal Econômica Brasileira, published by the Economists' Club, and through ISEB's conferences and publications. They were firmly established at the aforementioned agencies, as well as in other federal agencies at the Brazilian capital. Their developmentalist optimism prevented them at that point — save for the question of regional inequalities — from giving emphasis to distributive concerns, as they would do a few years later.

The emphasizing of the latter concerns fell to the socialist current,

whose increasing participation in the economic debate, promoted by the liberalization of PCB's political life, was an important innovation in comparison to earlier periods. Apart from the journal Revista Brasiliense, published by Caio Prado Jr. as of 1955, socialists inaugurated the magazine Estudos Sociais, which was to be distinguished from the former periodical by its official commitment with the theses of Party leaders. As we have noted, socialists were at that time gathering strength for the large national debate about nationalist and distributive issues that was to come to the fore in the early 1960s.

### 3.2. The Crisis

The foregoing chapters have been organized, as we have seen, according to a periodization that is hardly conventional among historians. Our purpose of giving an account of the movement of economic ideas led us to make some temporal cuts regardless of governmental periods. The peculiarities of the period 1945/1947, the points of unity in the period 1948/1952, and the specificity of the years 1953/1955 all served to warrant such procedure. In the present chapter, however, we may revert to the unanimously accepted periodization: the movement of ideas had a large affinity with the changes that took place in the governmental political scene, which also coincided with considerable temporal proximity with the economic growth process.

The period of Kubitschek's government, which enjoyed both an accelerated economic growth and political stability (stability as per Brazilian standards, to be sure), also witnessed the climax of developmentalism in Brazilian economic thought. The immediately subsequent period was quite another thing. Between 1961 and the military coup of 1964 there were strong political instability, an unprecedented mobilization claiming for social reforms, severe monetary, financial and foreign exchange difficulties, and as of 1962 and especially 1963, a marked decline in growth rates. As a reflexion of that new conjuncture and of the higher level of politization achieved by Brazilian society, economic literature showed a crisis in developmentalist thought.

What this means is, that the planned industrialization project, which had been guiding Brazilian economists' thinking with ever increasing influence, ceased to exercise power as an ideological nucleus of economic proposals and analyses. The picture of the crisis in developmentalism may be summarized as follows:

a) Economic reflexion was chiefly subordinated by two questions, viz., conjunctural problems with both inflation and the crisis in the balance of payments, and "basic reforms". In particular, the theme of social reforms — especially the land reform — first began to feature as a basic element in the economic debate as part of a general background of evaluation of the recent experience with industrialization and national economy's possibilities of long-term development.

b) Both of these questions considerably reduced the meaning of traditional developmentalist concerns, i.e., industrial investment planning and the growth of the economy as a whole. On the one hand, attention was focused on the short-term situation and on solutions to monetary and balance-of-payment problems. On the other, economic development was felt to require some deep institutional changes or basic reforms so that one might reach the stage of economic and social progress aimed at by those who advocated industrialization. Thus, while we can by no means say that developmentalism was abandoned, a new political dimension and a new social content in non-conservative economic thought made it depart from the original developmentalist project, i.e., from that project as stated in earlier decades.

To say the least, the "new" developmentalism was deeply changed, less optimistic and absorbed by "reformistic" campaigns. The understanding was spread that, given the existing institutional structure, the continuation of development would be hard to achieve, if not altogether unfeasible. In the first place, as the opinion went, one lacked a financial equation that might allow for growth without profound monetary disequilibria. Second, it was in-

creasingly acknowledged that, unless there were a reform in the structure of rural landholding and an alteration of the income distribution pattern, industrial development alone could not, as formerly believed, solve the problems of unemployment and poverty that affected most of the population and vast regions of the country. The economic recession initiated in 1963 was to increase the prevailing pessimism, thus helping undermine the traditional developmentalist perspective and deepening its crisis.

c) The developmentalist crisis was further reinforced by two important ideological aspects. First, the circumstances that "industrialization" already was, to a certain extent, a fait accompli, and that "planning" had become a widely accepted concept even among a large number of conservative economists made the message of "planned industrialization" — which had been so avant garde in earlier decades — lose some of its past ideological appeal. Second, the fresh outbreak of nationalism resulting from the left wing's progress contributed to inflame the debate about Brazilian economy's long-term prospects, in that it stimulated discussions about the nation's economic and political self-assertion.

#### i. The conjuncture

The historical sequence of the troubled political process of the early 1960s is now known down to its smallest details and has been the object of countless analyses.<sup>15</sup> Among researchers of Brazilian political history there is unanimity in characterizing the triennium ranging from the presidential installation of Jânio Quadros — the UDN candidate elected with the disconcert-

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(15) The major works are Campello de Souza, M.C., Estado e partidos políticos no Brasil (1930 a 1964), São Paulo, Alfa Omega, 1976; Soares, G.A.D., Sociedade e política no Brasil, São Paulo, Diffel, 1974; Schwartzman, S., "Vinte anos de democracia representativa no Brasil, 1945-1964", Revista Latino-Americana de Ciência Política, April 1971; Skidmore, T., Brasil: de Getúlio Vargas a Castelo Branco, op.cit.; Bandeira, M., As lutas sociais no Brasil, Rio de Janeiro, Civilização Brasileira, 1978; Victor, M., Cinco anos que abalaram o Brasil: de Jânio Quadros ao Marechal Castelo Branco, Rio de Janeiro, 1965; dos Santos, W.G., The calculus of conflict: Impasse in Brazilian politics and the crisis of 1964, Stanford, Cal., University of Stanford, mimeo, 1979.

ing support of 48% of the total vote given to the three candidates — to the military coup of March 1964 as a phase of political crisis.

In fact, the mere listing of the well-known sequence of political changes in that triennium is in itself an indication of its instability: (a) in August 1961, to everybody's astonishment, Jânio Quadros resigned from the Presidency, thus giving rise to a strong military opposition (and also to opposition from conservative politicians) to the presidential installation of the Vice-President in office, laborist João Goulart (PTB), who was a populist leader and heir to Getúlio Vargas; a compromise solution was reached, as we know, through a change in the Constitution that transformed the governmental system into parliamentarism; (b) during the short-lived enforcement of this system, which lasted for fourteen months, there was a succession of no less than three cabinets, headed respectively by Tancredo Neves (PSD), Brochado da Rocha (PSD), and Hermes Lima (PSB); Brochado da Rocha's election in mid-1962 was preceded by a violent crisis at which the candidate indicated by Goulart — PTB member San Thiago Dantas — was rejected under the pressure of conservative military officers and politicians, on the one hand, and of manifestations of support to Dantas, on the other (the latter including a major strike called by the General Workers' Confederation). The efforts made by Goulart and his parliamentary cabinets during the second half of 1962 were addressed to the elimination of parliamentarism itself, thus reinforcing the situation of political instability; (c) parliamentarism was extinguished by a national plebiscite by the decision of over 80% of the electorate. The political crisis, however, was aggravated in 1963, making it increasingly difficult for President João Goulart to carry out any governmental projects and even more so to control the situation.

This is not the proper place for an analysis of the political situation of that triennium, which is complex enough in itself to discourage any effort of characterization in just a few lines. Even so, it is worthwhile pointing out some of its well-known component elements. On the one hand, some

actual conditions gave rise to a growing popular dissatisfaction. The former process of economic growth, despite the great advances made by industrialization, had led to the appearance of urban poverty and unemployment at levels that had been inconceivable to those who had viewed industrialization as the solution to the country's social problems. To the problem of low labor absorption in the economy's modern sectors — which was typical of the Brazilian industrialization style and was in itself a potential cause of social tension — and further increasing the tensions of the triennium under examination were added a high inflation, which gradually reduced real wages to levels that were always below the peak reached in 1959, and (owing to the recession of 1963) an aggravation of the problem of unemployment.

On the other hand, popular mobilization and participation had reached an unprecedented level. Workers had conquered a minimum of political organization, social movements gained expression even in the countryside, and there was a multiplication of labor rights movements and strikes among the most varied professional categories. At the Congress, the political representation committed to social struggles began to grow larger and, though it was still a minority, it loudly advocated institutional transformations — the so-called "basic reforms", particularly the land reform, viewed as an indispensable instrument for a better income distribution. This group also adopted a nationalist stand in regard to foreign interests.

However, the power of leftist groups — which tended to alternate between attitudes of support to Goulart and attacks against both the President's hesitations and his attempts to approach the conservative wing — was still insufficient to assure deeper reforms and was more than offset by the organization of conservative powers. At the Congress, for instance, where there was a growing ideological polarization, Goulart's government could get no support for its projects. The Land Reform Project, for example, was defeated by a vote of 176 against 121.<sup>16</sup> In fact, gathering more and more strength in the

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(16) In principle, there were some very favorable indicators of the possibility of a land reform of some depth within the country as of 1961: (a)

throes of the crisis was the group that favored a coup d'etat, whose nucleus was composed of UDN's conservative wing and military extremists, and which was supported by an activist part of conservative technocracy.<sup>17</sup> This group used the argumentation that they were getting organized to avoid a leftist coup by Goulart himself, and they resorted to the anti-communist ideology to get mobilized against the government and against leftist groups in general.

The nationalism found in Goulart and his major allies reinforced the opposition. It was chiefly expressed through a defense of the law regulating profit remittances, which was voted in 1962, and through the nationalization of some foreign companies that supplied public services, as well as through Goulart's insistence upon giving continuity to the independent international policy initiated by Quadros, which refused support to the American decision to isolate Cuba. These initiatives raised an unwillingness within the the U.S. government to give economic (and political) support to Goulart and contributed to an aggravation of domestic political tensions.

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through their Alliance for Progress program and in their anti-Cuba crusade, the USA were in favor of a reform in the rural property structure of Latin America. This position, which still had not been explicitly acknowledged in the Punta del Este Declaration, later began to gain a sharper outline; (b) some expressive portions of Brazilian society's conservative segments began to show an inclination towards that project; that was the case, for instance, of the entrepreneurs and technical experts who met in 1962 at a seminar sponsored by the conservative Brazilian Agriculture and Livestock Institute, which proved moderately favorable to a restructuring of rural property. Not only portions of the Church and the press but also Brazilian intellectuals and a significant number of our politicians claimed for a reform with variable degrees of radicalism; (c) rural workmen began to organize themselves in Peasant Leagues, etc. and to demand both land and an improvement in labor remuneration, whereas urban labor unions began to incorporate the land reform into their revindications; (d) the National Congress, contrary to some generally accepted views, was inclined to approve of some major transformations. As early as 1961 it had already passed the Rural Workers Statutes, which extended some of the characteristics of urban labor legislation to rural areas. In October 1962 it had approved of the creation of the Land Reform Superintendence, which was to play an active and politically controversial part in the formation of rural labor unions in 1963. During all those years the Land Statutes were going through Congress channels and were finally approved by the Senate in 1963. These Statutes, which were sanctioned already in Castelo Branco's military government in 1964 and which were largely abandoned in practice, contained two important innovations: they made provisions to discipline land tenancy and share-cropping, and stipulated



This complex setting made it extremely difficult to conduct the government efficiently, all the more so because of the constant cabinet changes and the resulting administrative discontinuity which led to a halt in decision-making.<sup>18</sup> The trajectory of instability which produced the President's growing weakness and his overthrow by the March 1964 coup d'etat was further propelled by a critical economic conjuncture that made it all the more difficult for Goulart to handle the political crisis.

In the economic area, the situation of crisis or recession was clearly outlined only in 1963, as in 1962 the economy still managed to grow 5.2%. However, since 1961 there had been an increasing deterioration in the monetary situation, thereby aggravating an inflationary trend that had been gaining ground since 1958, as well as a foreign exchange crisis which, though partly overcome in 1961, was again accentuated in 1962 and 1963. Thus, economic recession set in during 1963, on top of the monetary and foreign exchange crisis

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formulae for social interest-based expropriations which, while observing the Constitution of 1946 (whose article 147, paragraph 16 stipulated the payment of cash indemnities), reduced the financial onus to the government. In early 1963, going against the pressures of the landholders class, both PSD and UDN were inclined to support PTB and approve of an amendment to the Constitution to eliminate mandatory cash indemnifications, which made it virtually impossible to achieve the desired land redistribution. Only at the April 1963 convention did UDN back out of their position, thus motivating PSD's later withdrawal and rendering the amendment project unfeasible.

The proposal was defeated at the House of Representatives in October 1963. Although there was an intensive mobilization of rural landholders associations against the amendment and notwithstanding their influence on the National Congress, there are those who believe that another — political — reason weighed considerably upon the course of events: both UDN and the more conservative fraction of PSD fought the amendment not so much because they opposed the reform as such, but because they wanted to prevent Goulart from gaining political power and prestige, wanting to see his government weakened instead. The radicalization that followed UDN's withdrawal as specially PSD's — the latter having disrupted once and for all the old PSD-PTB alliance — played a major role in the mobilization for the military coup that overthrew the President.

See in this respect Aspásia Camargo's "A questão agrária: Crise do...", op.cit.

- (17) André R. Dreifuss collected a substantial documentation in this respect in his book 1964: A conquista do Estado, Petrópolis, RJ, Vozes, 1981.
- (18) The thesis of a paralysis in decision-making has been advanced by Wanderley G. dos Santos in The calculus of conflict..., op.cit.

that was already under way and which was unprecedented in the country's history.

The data about the recession, which extended up to 1967, are unequivocal. In 1961, the GDP had a 10.3% growth, whereas in the subsequent three years its growth was only 5.2, 1.6, and 2.9%, respectively. This fluctuation in national production was paralleled in the industrial sector, where growth rates for those three years were 7.3%, 0.2%, and 5.2%, as compared to an average annual growth rate of 12% between 1958 and 1961.

Economic literature offers two types of explanation to account for this retraction. First, some authors assign its cause exclusively to situational monetary and foreign exchange factors. The stabilization policies enforced in the early years of the decade of 1960, along with import difficulties, had allegedly affected the existing production and investment plans, thereby determining a relative decline in economic activities. Second, two other explanations deal with both the crisis and recession as resulting from an inexorable tendency observed in the Brazilian economic development process. One of them is ECLA's interpretation, which claims that there was a decline in the import substitution process. According to this view, industrialization in the early 1960s had reached a stage of depth that robbed substantive investments of their capacity to act as propellers of the growth process. Moreover, this view states that the economy was facing a number of structural obstacles that tendentially aggravated that incapacity. The other explanation understands recession as a point of reversion in the investment cycle initiated in 1957 and led on by the Target Plan's investments. According to this Kaleckian-oriented view, Brazilian industry in the early 1960s had come to a situation of hyper-accumulation and idle capacity as a result of the huge investments made in the newly installed sectors; these sectors, given that they were oligopolistic, had purportedly made investments that went beyond the existing demand in an attempt to dominate the market for many years to come.

All interpretations agree, however, upon the idea that monetary dif-

difficulties were serious complicating elements that helped accelerate the crisis and deepen recession. Thus, though there is no unanimity as to the causes of the crisis, not even among those who seek them in factors that are structural in nature, everyone — including, of course, those who seek the causes in conjunctural factors — agrees that the country was undergoing a severe monetary (and financial) crisis.

In effect, there is no denying that fact. The inflation rate, which had gone beyond the 30% threshold in 1959 and 1960, increased to the unheard-of levels of 41.7% and 51.3% in 1961 and 1962, respectively, and went up to 81.3% and 91.3% in the two subsequent years. Among governmental authorities from different currents of thought there was a virtually unanimous view that the major cause of inflation were public deficits, followed by the lack of control over the expansion of the means of payment.

In each of the years in the triennium 1961/1963 the different governments — that of Jânio Quadros, the parliamentarist one, and that of João Goulart — introduced policies of austerity with the purpose of controlling those two factors. Yet, in each of those years such policies were also eventually abandoned.<sup>19</sup>

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(19) In the first half of 1961 Finance Minister Clemente Mariani began to work on a series of attempts to win over inflation. He initially tried to check monetary expansion by cutting back on the loans made by the Bank of Brazil. By June 1961 a serious banking crisis forced him to relax that policy through a reduction in mandatory deposit rates and some improvements in rediscount terms. He was thus left with the alternative of attempting to curb state deficits, which he proposed to do via an Emergency Plan that forecast a reduction of the projected deficit of Cr\$ 55 millions to Cr\$ 19 millions. In August came the political crisis that introduced a discontinuity into economic policies and more than frustrated the intended deficit contention; the deficit reached Cr\$ 137 millions during that year and helped feed an inflation of approximately 48%.

The sequence of events was repeated in 1962. During the first semester the government tried to reduce the projected deficit by moving up the settlement of foreign debts and postponing payment for public works, while also raising commercial banks' mandatory deposits in an attempt to curb monetary expansion. However, the government was pressed for credit by private initiative, and was also under the pressure of public expenditure commitments made at earlier dates; it had little political power to

The difficulties in the foreign exchange area were not any smaller in the triennium. Jânio Quadros's government was installed in 1961 carrying the legacy of a heavy foreign debt and a fear of witnessing, in 1961, a deficit like the one verified in the balance of payments in 1960 (US\$ 410 millions). The new Finance Minister, Clemente Mariani, and SUMOC's new Superintendent, Octávio Gouveia de Bulhões, hastened to introduce a far-reaching exchange rate reform to cope with those problems. They enforced SUMOC's well-known Instruction no. 204 in the hope of not only controlling the foreign deficit for 1961 but also recapturing the confidence of both the IMF (with which, as we recall, Kubitschek had broken relations in 1959) and international bankers so as to renegotiate the debt and obtain new loans. Instruction no. 204 brought the Brazilian exchange rate system closer to that desired by the IMF, eliminating the multiple system of exchange rate auctions.<sup>20</sup>

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resist those pressures; and it suffered from a profound discontinuity in the conduction of its affairs (in the second half of 1962 Minister Walter Moreira Salles handed over his office to San Thiago Dantas, who was replaced in 1963 by Carvalho Pinto, who in turn transferred his office to Ney Galvão later in the same year). In view of all these circumstances, the stabilization program met with failure in the second semester and the economy faced an expansion of the means of payment in the order of 63%; a public deficit of Cr\$250 millions, and an inflation rate of 51%.

Again in 1963 the government tried to curb inflation during the first semester and lost control over the situation during the second one. The Triennial Plan forecast a monetary expansion of only 34% p.a. (estimating inflation at 25% and GDP's growth at 7%) through the exercise of control over private credits. It also contemplated a reduction of public deficits from Cr\$1,023 billions to Cr\$763 billions by means of expenditure cuts of approximately 26%, and it forecast the financing of part of the deficit through the placement of Treasury Bonds. Already in May there came the first event that went against these expectations, i.e., the approval of a 70% raise in public servants wages by the National Congress, as compared to an initial forecast of only 40%. During the first semester, the anti-inflationary policy was confined to credit contention, which, however, could not be maintained during the second semester. By that time the Triennial Plan had already been abandoned as it had become unfeasible owing to the enormous political and economic difficulties then encountered. By the end of the year monetary expansion reached 65% and the public deficit was around Cr\$500 millions. Inflation reached 81%, even though recession had already fully set in.

- (20) Instruction no. 204 introduced a General Category on the basis of which foreign credits were negotiated for all exports and imports with the exception of some essential imports — for which, however, the exchange rate was doubled from Cr\$100 to Cr\$200.00/dollar — and also excepting imports that were considered superfluous, as well as coffee and cocoa exports.

The reform yielded good results in 1961. A superavit of US\$110 millions was obtained thanks to an expansion in exports, a reduction of imports, and a considerable increase in the net inflow of loans as compared to the previous year. Moreover, Mariani's administration succeeded in its missions before international financial institutions both in the U.S. and Europe, and obtained a new parcelling out of the short-term debt in the order of approximately US\$850 millions, plus additional credits for another US\$850 millions.

Yet, the situation deteriorated again in 1962 and was not greatly improved in 1963, foreign deficits for those two years being respectively US\$246 millions and US\$244 millions, due chiefly to a new drop in exports and a marked reduction of capital inflow (in fact, there was a higher capital outflow than inflow in 1963). This situation called for a new relaxation in the deadlines for settlement of the debt and for the obtention of new loans. Circumstances, however, differed from those that had enhanced the negotiations carried out in 1961. Besides the political instability of João Goulart's government and the soaring inflation, what the country had to offer to the IMF and to international creditors was not any indication of getting any closer to orthodox measures, but rather a controversial profit remittance law.<sup>21</sup> Given the unfavorable picture and the uncertainties of the situation, all negotiations with both the IMF and foreign creditors were a complete failure.

Monetary and foreign exchange difficulties dominated monetary authorities' concerns in those critical years. The possibilities of reinstating an investment plan — a second Target Plan — were eliminated, initially, by Quadros's election, inasmuch as he chose a conservative (neo-liberal) economic

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(21) Law no. 4131 of September 1962 limited profit remittances to 10% of the capital invested; any remittance exceeding that limit would be regarded as capital repatriation. Moreover — and this was the major controversial point that roused greatest opposition — the reinvestments to be regarded as capital for the purpose of calculating remittances would be represented by the difference between the 10% limit and the amount actually remitted, the rest of the reinvestment being independently registered.

cabinet, and later by the aggravation of the crisis. During the second half of 1962, João Goulart accepted San Thiago Dantas's recommendation to order a Triennial Plan from Celso Furtado for the period 1963/1965, in an attempt to reinstate the planning dimension of Kubitschek's government.

The major targets announced in the Triennial Plan were, in short: (a) a 7% growth per annum; (b) a gradual reduction of the inflation rate to 25% in 1963 and down to 10% by 1965; (c) a renegotiation of the foreign debt; (d) the introduction of a land reform aiming to promote social justice, domestic market expansion and a rationalization of agricultural output; and (e) a raise of real wages in proportion to the increase in productivity. The Plan, as we know, was abandoned a few months after its announcement.

## ii. Economic thought

For all its brevity, the foregoing description supplies us the elements required to clarify the assessment we had briefly proposed some pages earlier regarding the situation of economic thought in the first few years of the decade of 1960. The conjuncture of an economic crisis (a monetary and financial crisis in 1961/1962 and recession in 1963) and of political instability, along with the higher level of politization attained by the country, put an end to the influence exercised by the original developmentalist project upon economic thought during the 1950s. Under the pressure of profound monetary and financial disequilibria, as well as the evidence that poverty resisted the advance of industrialization and kept growing in the cities, Brazilian economic thought was absorbed, on the one hand, by situational economic problems — though these were often dealt with from a historical and structural perspective — and on the other, by social and institutional problems viewed from a perspective of revising and reassessing the developmental process under way. Thus, it no longer centered around the question that had given it increasing unity during the 1950s, i.e., the simpler question of planning and effecting the necessary investments to implement an industrial sector, which was then view-

ed as a sufficient measure to promote social welfare.

An excellent evidence of that transformation is the Triennial Plan itself — possibly the most often quoted economic document among researchers of the rich and unstable period of Brazilian history now occupying our attention. For the first time in the country's history an authentic nationalist developmentalist — Celso Furtado — was installed in an economic ministerial office and entrusted with preparing a governmental economic program. Significantly enough, however, and for all its various sections devoted to sectorial planning, the Plan was rather wanting with regard to global and sectorial analyses and proposals for growth and investment, i.e., it was lacking precisely in respect to the planning dimension that was dearest to the tradition of the nationalist developmentalist current.

Such precariousness was no doubt at least partly due to the haste with which the Triennial Plan was elaborated (in only three months). This justification, however, accounts at best for what the document does not contain. If one analyzes what it does propose, one will realize the importance of conjunctural and reformistic questions within the period's economic and political scene, as well as estimate their weight upon the economic thought of the time. On the one hand and regardless of its developmentalist appearance and the structuralist language used in good faith in the text, the Plan's only proposals with any actual likelihood of being carried out by economic authorities concerned the attempt to control inflation via credit and public expense restrictions,<sup>22</sup> as well as the measures designed to overcome the foreign bottleneck, both proposals aiming at short-term problems. On the other

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(22) The proposal advanced in the Triennial Plan was to maintain governmental expenditures at the level of their historical participation in the GDP, i.e., at 14%, and to expand credit according to the desired 25% inflation rate and the expected 7% growth rate. However, in order for those measures not to have a negative impact on the economy, the desired rates must be confirmed in practice. Given that already during the first half of the year inflation went beyond 25%, both measures had a negative impact and reinforced the recessionist tendency that had already set in.

hand, the text endeavors to convey to the nation the government's intention of carrying out four basic reforms in the future, all of them being viewed as indispensable for the efficacy of any planning effort, viz., the administrative, banking, fiscal, and land reforms.<sup>23</sup>

It is immaterial for our claim that the Triennial Plan reflected the crisis of developmentalism to say that the analysis of conjunctural problems in its text was a structuralist one: it was primarily motivated by the political concern with the immediate control of inflation, and its propositions roused strong reactions owing to their anticipated short-term impact.<sup>24</sup> Moreover, the fact that the analysis was a structuralist one and therefore had a historical dimension is part and parcel of the same crisis: it expressed a concern (also important at the time) with the major problems of the historical

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(23) The most complete study about the ideological and political background of the preparation of the Triennial Plan is Lourdes Sela's Ph.D. thesis, The political and ideological constraints to economic management in Brazil, 1945-1963, op.cit. Another relevant work about the Plan is José Carlos de Miranda's M.Sc. thesis, O Plano Trienal: O canto do cisne do nacional-desenvolvimentismo, Campinas, 1979.

(24) Both in the brief early moments of manifestations of sympathy towards the document and in the countless criticisms it roused in the months following its publication, the major concern related precisely to conjunctural problems, especially the inflationary question. Some left wing segments, in particular, besides being discontented at the vague declarations suggesting a reformistic intention, began to be suspicious of the risk of recession in the measures proposed. A case in point was the following editorial of a labor union bulletin: "However, to account for the position adopted by labor entities, it seems necessary for us to underline the flagrant contradiction between the analysis that has been made about Brazilian economic society and the solutions proposed for its planning. (...) The plan, given its propositions, does not mean to be an element of transformation of the economic process, but rather restricts itself to ordering the growth trends [the process] has revealed and to assure financial equilibrium for their actualization. Considering what the evolution of Brazilian economy has cost workers along its way, and considering also the latter's own experience and the experience of laborers from neighbor Latin American countries with this kind of economic measures when formerly adopted, it is obvious that the Triennial Plan could not receive workers' support for its propositions" (DIEESE, Revista de Estudos Sócio-Econômicos, January/February 1963, p. 2).



process of Brazilian economic development and fits into the perspective of a revision and reassessment of that process.

In fact, even with regard to those matters whose dominant concern was the immediate situation there was room in the debates of the period for discussions associated to the historical process. One might say that the perspective of a concern about the major transformations required for the long-term reorientation of Brazilian economy was somehow present in the reflexions about all prominent topics that marked economic thought in the early 1960s.

As far as the debate about the foreign exchange question is concerned this was not exactly important news, inasmuch as what made itself felt was merely the old prospect of furthering the industrialization process to render the economy more self-sufficient, added perhaps to a new concern about exporting manufactured goods and exploring new foreign markets. As regards the inflationary question, however, more than the old structuralist perspective, the really significant news is the relation between the conjunctural analysis and the concern about basic reforms: there was a widespread acknowledgement of the need to effect two reforms — the banking and fiscal ones — to provide the country with higher monetary control and a new financial structure, so as to render economic development compatible with monetary stability. And the major institutional change debated in that period — i.e., the land reform, whose course through Congress channels engrossed the nation's attention — was in turn chiefly associated to the discussion about the major analytical news of the time, viz., the problem of the relation between income distribution and development patterns, on the one hand, and in still more embryonic form, the relation between income distribution, employment, and economic growth, on the other.

In the following paragraphs we offer a brief record of economic thought as associated to the questions raised by short-term problems (inflation and the foreign exchange crisis) and to the questions concerning the pattern of economic development in Brazil (and the dynamics of the economy), among which

there featured the problem of foreign capital. Those are the questions which were given higher prominence within the reformistic intellectual and ideological framework that was beginning to assert itself by the time of the military coup of March 1964.

Two qualifications are in order, however. First, we shall lay emphasis basically on the innovations brought forth in the debates about those questions as compared to earlier economic thought. Second, in sticking to these questions we shall omit any considerations about some other economic topics debated at the time. We note, however, that those topics — like the somewhat new question of the establishment of a Latin American common market (ALALC) and the old issue of employee participation in company profits — had no major analytical importance and were far from politically arresting the nation's attention.

As for the first topic indicated, i.e., the problem of the crisis in the balance of payments, there is little more to say in terms of our purpose of highlighting the innovations in the economic debate, aside from the fact that discussions about this matter were intensified owing to the period's severe foreign exchange crisis. In 1961, Instruction no. 204 elicited applause from those who felt it necessary to come closer to the single exchange rate system recommended by the IMF, and silence from structuralist thinkers, who were content with the fact that the imports of essential capital goods and raw materials for the industry would continue to be made at the "cost exchange rate" (subsidized exchange rate). Instruction no. 204 also roused strong opposition from socialists, who viewed the measure as a dangerous relinquishment of state control over foreign trade and a surrender to imperialism as represented by the IMF. The discussion was to proceed, on the one hand, at the whim of each of the countless supplementary measures (exchange rate devaluations, etc.) demanded by circumstances, and on the other, thanks to the impetus it received from the profit remittance legislation that went through Congress channels in 1961 and 1962. Nationalists denounced the freedom to re-

mit and repatriate capital as one of the major causes of foreign disequilibria, their claims being challenged by those who defended foreign investments in the country. By late 1962, with the Triennial Plan, a special opportunity arose to reinforce the structuralist thesis, and Furtado did not miss it: he assigned to the deterioration in the terms of trade the major blame for foreign disequilibria.<sup>25</sup> His explanation elicited some sharp neo-liberal criticisms in the form of an article published in an issue of Revista Brasileira de Economia that was devoted to analyzing the Plan.<sup>26</sup>

The other traditional structuralist argumentation used in the Triennial Plan with regard to foreign bottlenecks was that the latter were one of the primary causes of Brazilian inflation. In examining the inflationary question in the Plan, Furtado made a second important association between foreign trade and inflation, i.e., he claimed that the exchange rate reforms of 1957 and 1961, in eliminating the fiscal revenues originating from the difference between export and import exchange rates, had largely contributed to the occurrence of federal budget deficits, and therefore to inflation.<sup>27</sup>

The innovations in the heated discussions of the time about the inflationary question, however, could not come from structuralist arguments.

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(25) See Huddle, D.C., "Plano Trienal: Crítica do setor externo", RBE, September/December 1962, pp. 143-151. As a Brazilianist devoted to studying Brazilian foreign economic policies, Huddle denied that there had been any deterioration in the terms of trade in his sharp criticism to the Triennial Plan's ideas about the foreign trade sector. Also, in his anti-structuralist line of argumentation, he attributed the basic cause of the Brazilian foreign trade disequilibrium to both the government's policies of excessive control over foreign trade and the government's overvaluation (particularly the policies enforced between 1948 and 1953 and the policy being implemented in 1962), as well as to the discouragement to exports and the incentive to imports deriving thereof.

(26) Yet, the Triennial Plan accepted the existing foreign exchange system, which had been introduced by Instruction no. 204 of 1961, and found that both the levels of current exchange rates were satisfactory and that the revisions they anticipated were necessary to make up for inflation. Rather than import substitution, both export diversification to increase industrial product sales to foreign markets and the search for a diversification in buyer countries (ALALC, ECM, socialist countries, etc.) were viewed as long-term solutions to a problem that was said to have as a major component, in the short run, the renegotiation of foreign debts (Plano Trienal..., op.cit., pp. 66-79).

(27) Brasil, Presidência da República, Plano Trienal de Desenvolvimento Econômico (Síntese), 1962, p. 66.

After all, the debate with "monetarists" or "anti-structuralists" had already known its climax in regard to analytical formulations and there was virtually nothing new to add to it.

The major innovations came from someone who criticized both the structuralist and the monetarist theses, i.e., Ignácio Rangel — an author whose importance led us to devote an extensive chapter of this dissertation to his ideas. As we have stated in that chapter, Rangel identified the roots of inflation in the "oligopsonistic-oligopolistic" intermediation system prevailing with regard to agricultural products for the domestic market.<sup>28</sup> Also, according to Rangel, three other "anomalies" contributed to propel inflation, viz., the oligopolistic structure of Brazilian heavy industry, the non-existence of state control over public utility services, and the erratic stipulation of prices in the exports sector. Yet, the great innovation in Rangel's interpretation of inflation did not lie in the analysis of its causes, but rather of its effects. According to that author, for whom Brazilian economy in 1962 was already suffering from an excessive productive capacity (and from a realization crisis), inflation was playing the role of a buffer against the cyclical crisis, in that it made negative real interest rates possible and thus induced a rise in the economic system's "immobilization rate".

Another innovation came from an economist in the socialist current. During the twenty years covered by this dissertation, socialists had very little to say about the inflationary question. In the heat of the debates of the early 1960s, their remarks about the causes of inflation were generally no more than brief digressions appearing in the analyses of the topics they privileged, i.e., the land reform and imperialism. In those digressions inflation was explained away as resulting from either of those two "fundamental contradictions" of the Brazilian developmental process: the land prop-

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(28) Rangel, I., A inflação brasileira, São Paulo, Brasiliense, 1980.

erty structure determined a shortage of food products, thereby rising their prices; and imperialism, in remitting profits, lowered the Brazilian import capacity, this being converted into an inflationary pressure. Alberto Passos Guimarães then chose to examine the problem. He gave that explanation a more elaborate treatment and enlarged it to incorporate an aspect that had formerly deserved only a secondary reference by both structuralists at large and Rangel: according to Guimarães, the Brazilian productive structure, thanks to being very concentrated, allowed for the accrual of oligopolistic profits which, in turn, generated inflationary pressures. The other socialist economists who had devoted their time to the analysis of market structures, like Aristóteles Moura and Heitor Ferreira Lima, had not integrated this analysis into the inflationary question.

Another point stressed by Guimarães in his account of the Brazilian inflationary process was that Brazilian economic policies, whether in the fiscal, credit, exchange or foreign trade areas, had been historically enforced with the primary intent of protecting the profits of latifundia and large capital, thereby generating in themselves additional inflationary pressures. The solution to this problem was claimed to lie in the introduction of "state capitalism" into the country.<sup>29</sup>

At the level of the interpretations that were less committed to any analytical rigor, everyday discussions were conducted as expected: entrepreneurs continued to blame inflation on the government's action, i.e., on its budgetary deficits and on price controls; governmental authorities continued to agree on the need to control deficits but insisted — much against entrepreneurs' wishes — on the need to curb credit expansion; and leftist groups and labor leaders, in turn, with greater insistence than in the past, continued to claim their right to readjustments that might restore to proper levels

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(29) Guimarães, R.P., Inflação e monopólio no Brasil, São Paulo, Civilização Brasileira, 1963.

the wages drained by inflation, amidst a growing number of strikes.

We have formerly stated that in the early 1960s the perspective that it was necessary to perform some basic changes in Brazilian institutional structures was associated to a discussion of all major economic themes. The questions of inflation and the governmental deficit, for example, were linked to the debate about the period's "basic (economic) reforms", i.e., the banking and fiscal reforms.

The discussion about financial reforms (banking and fiscal system) took place under the stimulation of short-term inflationary problems. But it obviously went beyond the problem of the immediate control of inflation, as few people let themselves be deceived by the prospect that the necessary reforms could take less than a few years to get approved and implemented before they became effective.

Discussions were actually conducted from a much wider vantage point. It was generally acknowledged that a significant portion of state investments were being financed by inflation (by currency issues) and that part of the available savings, which might be channelled either to private or state investments, were being allocated to speculative and unproductive activities for want of an adequate financial market. Furthermore, everyone realized that in order to make the expansion of productive investments compatible with some monetary stability a financial reform was necessary.

The debate about the banking system's reform centered around the need to carry out a restructuralization of the financial system that might (a) allow for an effective control over currency issues by the country's top economic authorities, taking away from the Bank of Brazil the power to issue money — which in practice was held by that institution, as it simultaneously played the roles of a commercial bank and a central bank (operating, for instance, the Rediscount Department and the government's Cash Fund for the Banking System); and (b) create new financial institutions and new instruments to finance consumption, working capital, and fixed investments (something that

was felt to be possible only by overcoming the legal limitation of interest rates at 12% p.a., a level that was well below inflation), while at the same time strengthening the stock market in order to channel capital to private and state enterprises.

Through the discussion of the fiscal reform, in turn, the points debated were essentially (a) a strengthening of the government's financial capacity so as to eliminate the existing debts; (b) an increase in the overall savings rate and a change in investment composition; and (c) a change in national income distribution.

The widespread debate about the foregoing reforms mobilized countless economists, entrepreneurs and politicians, giving rise to an extensive bibliography, part of which records the several seminars, congresses and parliamentary debates held about the subject. A reconstitution of that debate lies beyond the limited objectives of the present chapter. The only point we wish to stress here is that that debate fits into the perspective of an assessment of the Brazilian economic development process that characterizes the period's economic thought.

We should note, however, that unlike the discussions about the land reform, the debate about the financial reform was not guided by the prospect of deeply redirecting the developmental pattern. The subject was actually restricted to the sphere of the traditional developmentalist debate, except with regard to the emphasis laid on one of the elements of the fiscal reform, i.e., the question of income distribution.

In this particular aspect there was a conflict between two basic perspectives: first, there was the position taken by the entrepreneurial class and by the technical experts and politicians that argued for it, aiming to prevent the reform from increasing taxation on entrepreneurial profits and on the income of the affluent classes, with the argumentation that in an economy with a reduced savings rate taxation must be levied on consumption; secondly, there was the stand taken by those who felt it necessary to tax both

the rich class and extraordinary profits, and to reduce taxation on the consumption of essential goods and on low income individuals.

The distributive question integrated still more significantly the discussions about the other reform which was even more widely debated in that period, i.e., the land reform. Among reformistic issues the land reform was no doubt the one with greater responsibility for stimulating a reassessment of the economic development process. It fully embodied the major topics that challenged that process, i.e., the concentration of the beneficiaries of industrial progress in a small segment of the society, the unchecked growth of urban unemployment, the resulting creation of a new scene of poverty in large cities, and the perpetuation of rural poverty.

The debate about the land reform, centering around parliamentary projects, arrested the nation's attention, and the relatively favorable intellectual and political climate surrounding its conduction was deeply reflected in the period's economic thinking.

A survey of the economic dimension of the rich and intensive debate about the land reform — a debate, let it be said in passing, that had a strong political content (discussions about its feasibility and its political advisability) and a wide sociological dimension among leftist groups (understanding of the relations of production in the countryside so as to define the country's revolutionary stage) — would demand a much deeper investigation than we have conducted. As far as our examination has gone, the debates of that period already show a wide diffusion of the two economic arguments that had long been used by those who argued for the land reform, viz.,

- the argumentation that it would provide for a raise in productivity and an expansion of food supply, whose rigidity was at least partly accounted for by the agrarian structure, and
- the argumentation that it would enlarge the domestic market for industrial products.



The first of the foregoing arguments was the most controversial one.

Those who objected to a redistribution of rural property argued that what the countryside did lack to raise productivity were education, health, credit, and technical assistance services, and that agricultural product prices were also affected by the precarious transportation and storage conditions available. Those who argued for the reform acknowledged that those services were indispensable, but claimed that they were complementary to providing farmers with the vast areas of land that were either abandoned or underutilized by large landholders. These landholders, who were largely devoted only to conspicuous consumption, prevented the allocation of surplus for the purpose of improving productivity, according to the explanations offered by some of the defenders of those reforms. Moreover, land became scarce, thereby jamming a significant portion of rural labor into equally unproductive minifundia.

The argumentation about the land reform also incorporated the discussion that is of greater interest to us in the present chapter from an analytical point of view, i.e., the reflexion about the pattern of the economic development then under way, as well as its major difficulties, its handicaps, and the possibilities of altering the developmental strategy.

Before we offer our comments on this point, a word of warning is in order. The history of the evolution of ideas about capitalist development's "model" in Brazil was not interrupted, as we know, in March 1964, which is the closing point of our study. On the contrary, precisely as of that date and following a general Latin American trend, the economists and intellectuals who opposed the Revolution of 1964 began to formulate their ideas in more elaborate form, integrating the "development, income distribution and social justice project" into new models to interpret the Brazilian capitalist development (the models of dependence and stagnation). In restricting ourselves to the first few years of that decennium we record only the early movements of the new phase of Latin American analytical construction that was to act as a kind of theoretical counterpart of the new developmentalist project,

i.e., the reformistic project.

In those years when the new formulation was being outlined — a phase when there also emerged the first signs of the analysis that was to support the rejection of the idea of the feasibility of capitalist development in Latin America and Brazil by some leftist segments — we already find some analytical innovations that deserve to be mentioned.

ECLA's thought — which, besides being ideologically attuned to the nationalist developmentalist current, was also its major analytical support — was going through an important analytic reformulation that was ideologically inspired by the realization that industrialization per se did not solve the problem of unemployment and poverty. As we have seen in chapter 1.2 of the General Introduction to the present study, ECLA already detected in the early 1950s a number of structural problems which, in their view, must find a solution through economic planning so as to render industrial development feasible. Nevertheless, there was optimism in all of the period's structuralist analyses. At the turn of the decade of 1960, however, the feeling accompanying ECLA's writings was already one of marked pessimism.<sup>30</sup> Their authors, who were beginning to suspect that not even good planning was enough to solve structural problems (then conceptualized as "sectorial" and "regional" disequilibria), felt that if one wanted to give a solution to "social disequilibrium" income must be redistributed and the style of economic development must be reoriented. In the now classical text of that period, published in Brazil immediately after its presentation at an ECLA meeting in early 1963, Prebisch stated: "The following pages of this report are pervaded by a dominant idea: Latin America has to speed up its economic development pace and redistribute income in favor of popular masses. The fulfillment of this goal cannot be indefinitely postponed, nor can one expect that economic development come first

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(30) This point has been stressed in ECLA, Development problems in Latin America, Austin, University of Texas Press, 1980, introductory chapter.

and be immediately followed, as though this were a natural consequence of it, by social development".<sup>31</sup>

At the analytical level, this ideological reorientation was formulated through the key idea that dominated the ECLA school in the early 1960s, i.e., the idea that Latin American economies tended toward stagnation. This tendency was due, according to ECLA economists, to the pattern of economic development that had prevailed up to then, which was a development model that concentrated income and aggravated the social and economic duality of the countries in this continent.

This was the conception prevailing in the ECLA school during the 1960s. The analytical component elements that formed the "stagnationist" explanation already featured in some of the agency's writings since the first few years of the decade and found a first well articulated organization in 1963. We may distinguish two explanations for ECLA's "stagnationist" perspective in the writings of those days.

First there is an explanation at the level of "capital shortage", viewed as resulting from the very developmental pattern adopted. The major formulation along this line is found in the earlier quoted text by Prebisch, which dates back to 1963. According to him, capital accumulation in most Latin American countries was altogether insufficient to absorb the labor surplus. This stemmed, in Prebisch's view, not only from the classical shortage of savings but especially from the waste of potential savings (improductive consumption by the affluent classes) and from the poor application of the resources available, as a consequence of the very pattern of property and income distribution. Here are, in other words, the major points in this line of explanation: (a) there is a dynamic insufficiency in capital accumulation in Latin America in the sense that market economy cannot absorb the labor surplus,

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(31) Prebisch, R., "Hacia una dinamica del desarrollo latino-americano", RBCS, March 1963, p. 13.

thereby determining a continuation of poverty for most of the population; (b) that insufficiency is caused by various factors: it comes first from the im-productive use of the land, which hinders both the introduction of technical progress and an increase in productivity in the countryside, entails a waste of resources, and requires transformations in the existing land ownership structure. Second, it is due to excessive consumption within the rich classes, which calls for a raise in the taxation levied on them so as to enlarge productive investments. Third, it stems from the selection of capital-intensive production techniques and from the concentration of investments in sectors that absorb little labor (and have a high capital/product ratio). Such thwarting of the growth process was claimed to result both from the industrialization policy adopted and from the income distribution pattern itself: "Consumption by high strata of the society is also preferentially directed to products manufactured by industries that absorb relatively little labor and plenty of capital, whereas the opposite is true of the rest of the population. The progressive income redistribution postulated herein may thus make it possible to absorb a higher amount of labor per unit of capital invested. This general effect could be particularly important in agriculture".<sup>32</sup>

The second stagnationist formulation concerns "market insufficiency". The basic idea here is that the increasingly unequal income distribution implies narrow market expansion limits for the industrial sector, thereby hindering the diversification of the activities in that sector or rendering them inefficient for production scale reasons. This was the stagnationist view that prevailed among Brazilian economists.

In a text by Aníbal Pinto published in 1962, at which time he headed ECLA's office in Rio de Janeiro, the author raised this type of argumentation in advocating the compatibility between economic development and income de-

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(32) Prebisch, R., "Hacia una dinamica...", op.cit., p. 28.

(33) Santa Cruz, A.P., "Notas sobre la distribución del ingreso y la estrategia de la redistribución", RBCS, March 1962, pp. 175-194.

concentration.<sup>33</sup> The first clear formulation of this view by a Brazilian economist appeared in another classical text of that period, written also at ECLA's Rio office by Maria da Conceição Tavares, a disciple of Aníbal Pinto's who was to become one of the country's major economists.<sup>34</sup>

Tavares's text deals with the analysis of the import substitution process in Brazil and admits that at the turn of the decade of 1960 a phase of decline had been reached in that process. That acknowledgement inevitably led the author to approach the question of the prospects for Brazilian economy during that phase. According to Tavares, income concentration had been compatible with the previous development pattern via industrialization through import substitution. In the new phase, however, growth became difficult without an income (and land) redistribution: "The process described above with regard to Brazilian economy, aside from translating a growing social inequality that is highly favorable to the part of the population that is not engaged in the process, jeopardizes the very dynamics of the capitalist sector, since the domestic market's absolute growth that may eventually take place within that sector will not suffice to assure the recent industrial acceleration and support, which has been attained largely at the expense of market reservation for import substitution. (...) It is in this sense that the implementation of a land reform that does not liberate too much labor and increases productivity per worker via an increase in the yield per hectare is warranted in strictly economic terms to set the foundations of a future mass consumption, which is the basic characteristic of an advanced capitalist society".<sup>35</sup>

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(34) Tavares, M.C., "Auge e declínio do processo de substituição de importações no Brasil", in Da substituição de importações ao capitalismo financeiro, Rio de Janeiro, Zahar, 1973, pp. 27-124.

(35) Idem, p. 113. The stagnationist thesis was to be developed in Brazil in later years especially by Celso Furtado. Up to 1964, however, all that Furtado presented in this sense, scattered throughout his texts, were some of the analytical elements that were to compose the new phase, such as the idea that the duality of the economy knew nothing but an increase with industrialization, or that a vigorous development calls for income de-concentration, or further still, that a land reform is indispensable to allow for a better use of the resources available. The stagnationist

Apart from any possible differences of interpretation, the stagnationist explanation in terms of both poor resource allocation and market insufficiency conveyed a similar message: the full resumption of the growth and development process in Latin America presupposed some profound institutional changes to render income redistribution feasible. Therefore, they both disclosed the realization that the economy stood before a major impasse and that there was little choice between an alteration of the developmental strategy and a condemnation to stagnation.

One of the aspects that contributed most to ECLA's revision both at the ideological and analytic levels was, as we know, the fall in the economic growth rate, which occurred in many Latin American countries as early as in the second half of the 1950s. ECLA researchers were disappointed at perceiving the exhaustion of the growth process via import substitution in most countries when the process was only just beginning to take place. In Brazil, on the other hand, industrialization proceeded at a fast pace in those years. But in 1962, and specially in 1963, there came the recession. It is no coincidence that Maria da Conceição Tavares picked exactly that moment to improve upon ECLA's analysis of the dynamics of the import substitution process so as to understand the reasons for its exhaustion in Brazil. Her conclusion is summarized in the following statement: "The strategic problem now posing itself to Brazilian economy and upon which the remaining short-term problems are superimposed is that the import substitution as a developmental model has already reached its final stage, there emerging a need to switch into a new and truly autonomous developmental model (one in which the impetus for development comes from within the system itself)".<sup>36</sup>

This text was the starting point for a long story in the analysis of

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interpretation proper appeared in the following of Furtado's writings: (1) Subdesenvolvimento e estagnação na América Latina, Rio, Civilização Brasileira, 1966; (2) Um projeto para o Brasil, Rio, Saga, 1969; and (3) "Desenvolvimento e estagnação na América Latina: Um enfoque estruturalista", in A. Bianchi (ed.), América Latina: Ensayos de interpretación económica, Santiago, Ed. Universitaria, 1969, pp. 120-140. In analytical

the dynamics of Brazilian economy which Conceição Tavares herself, as well as Celso Furtado and several other economists were to undertake from then onwards. An important analytic challenge had thus posed itself. ECLA's explanation for the growth process was primarily based on the impact of foreign trade problems upon the economy and supplemented by a fruitful analysis of the trends which obstructed growth and hindered development for structural reasons (inflation, foreign deficits, unemployment, etc.). It could thus give no satisfactory account of the causes of economic crises and periodic fluctuations in the growth process, which would require an analysis focusing on the internal process of capital accumulation — so much so that the explanation for the fall in the growth rate of Latin American countries pointed to an "exhaustion of the import substitution process". The challenge, therefore, lay in finding an endogenous explanation for economic dynamics, i.e., an explanation based on the determining factors of capital accumulation. In this sense, the stagnationist account was a still embryonic effort that was soon to be frustrated upon the resumption of the growth process with income concentration in the year 1968.

During nearly all of the decade of 1960 the only economist to advance an interpretation along the lines of an interaction between effective demand and economic growth without a stagnationist perspective was Ignácio Rangel. As we have seen in chapter 5 of Part I, while Rangel analyzed the economic crisis as a "realization crisis" (owing to underconsumption), he believed that a financial reform would be enough to reactivate investments and overcome the crisis. He wrote about this subject already in the early 1960s.

It is interesting to note that the economists in the socialist current did not trouble to analyze the question of the economic crisis. This

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terms, the most elaborate formulation of this thesis is to be found in the last of these three works.

(36) Tavares, M.C., "Da substituição de importações...", op.cit., pp. 115-116.

was, in fact, an issue that went beyond the scope of that current's central concerns in Brazil. As we have seen in chapter 4 of Part I, its followers were engaged in an internal political discussion within the Party concerning the definition of the revolutionary stage the country was going through. As a rule, they viewed it as a "bourgeois" and "nationalist" stage and were attracted into the economic analysis of what they felt to be the two major obstacles to the development of productive forces, i.e., "land monopoly" and "imperialism".

Notwithstanding the differences between their respective theoretical tools, their languages and their political projects, it is possible to draw a parallel between this current's analysis and ECLA's — a parallel that brings them close together in regard to their ability to interpret economic dynamics. ECLA's analysis incorporated the idea of an import substitution process — something socialists seemed to accept, though not assigning it much importance. Apart from this aspect, they both contained analytical elements directed to the identification of medium- and long-term "tendencies" that were allegedly hindering the growth process. For ECLA, the "tendencies" toward inflation, unemployment, income concentration, foreign bottlenecks, etc. stemmed from "internal" and "external" structural factors, it being incumbent upon the state to plan the economy and carry out institutional reforms to make development possible. For the socialist current, the medium- and long-term development of productive forces was hindered by an "internal contradiction" (the land property structure) and by the interference of imperialism (the "external contradiction"), the execution of basic reforms and the economy's transition being incumbent upon "state capitalism", i.e., upon a planned economy with massive participation of state investments and fully able to control foreign trade and oppose imperialistic interests.

The economic argumentation employed by socialist economists to justify their old proposal of carrying out a land reform — which ECLA authors incorporated into their analyses only as of the late 1950s — was also similar



to the one used by ECLA. For both currents viewed latifundia as concentrating income, wasting the accumulation potential in conspicuous consumption, and obstructing both agricultural modernization and supply expansion. Moreover, they claimed that latifundia created an increasing labor surplus that put pressure on the urban labor market, thus decreasing wages and limiting the market for the industry.

The major contribution made by socialist intellectuals' reflexions about the agrarian question in that period did not exactly concern the economic analysis of the relation between the agrarian structure and economic development, but rather the question of the nature of the relations of production in rural areas. Caio Prado Jr. refuted PCB's classical thesis that Brazilian agriculture was a "semi-feudal" or "pre-capitalist" one and argued that, on the contrary, it showed distinct forms of capitalist relations.<sup>37</sup>

Prado Jr.'s thesis provided one of the analytical elements which, in the mid-1960s, regardless of its author's wishes, strengthened the thesis of an immediate socialist revolution, which was preconized by several of the leftist organizations that came up against the Party's orientation in those days. His analysis lent itself to the conclusion that, if agriculture was already a capitalist sector (contrary to PCB's views), then the conditions for a transition into socialism were already ripe in that area. Moreover, if the "bourgeois stage" had already been attained, then what one could see was that Brazilian capitalism had proved incapable of providing an integral development that could transfer any benefits to the masses. This idea of the unfeasibility of Brazilian development via capitalism — and of the need of an immediate socialist revolution — was to be reinforced, as we know, by the radical version of the thesis of dependence, whereby capitalist accumulation in

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(37) The works published by this author in the early 1960s have been collected in Prado Jr., C., A questão agrária no Brasil, São Paulo, Brasiliense, 1979. The most elaborate version of his ideas is to be found in his A revolução brasileira, São Paulo, Brasiliense, 1966.

underdeveloped countries could not be dissociated from international capitalist expansion and from imperialism, being part of a process that enriched advanced countries alone. Under such circumstances, the local bourgeois classes could be no more, in essence, than allies to imperialism.<sup>38</sup>

Those ideas were still in embryonic form in the early 1960s and were asystematically scattered in the more radical leftist writings conveying political analyses. Preponderant among leftists, at least at the level of their discourse, was a nationalist project of capitalist development. During those years nationalism was a basic instrument of political rallying, capable of acting as a point of ideological convergence among distinct political currents. At the level of the economic project, nationalists from different currents won a major victory through the profit remittance law passed in 1962. At the level of economic analysis, there were plenty of writings discussing the effects of the performance of large foreign companies within the country, with a reiteration of the old argumentation about the evil character of the "expropriation of the surplus" of Brazilian working classes with a view to remitting it abroad, i.e., without establishing any links with domestic economic development; those writings also continued to point to the need of consolidating and expanding the participation of state-owned companies in Brazilian economy.

The nationalist onslaught was not left unanswered. Those who defended foreign capital participation — among whom were also many of those who felt inclined towards basic reforms along the lines of the Punta del Este Letter and the Alliance for Progress — argued, as they had done for many years, that in the Brazilian case remittances represented a very small fraction of

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(38) The major author following this line of thought is Gunder Frank. See his Capitalismo y subdesarrollo en America Latina, Buenos Aires, Signos, 1970. Frank was one of the authors who challenged the thesis of feudalism in the Brazilian countryside as early as in the first half of the 1960s. See his article "A agricultura brasileira: Capitalismo e o mito do feudalismo", Revista Brasiliense, January/February 1964. This work already features some of the elements of his dependence thesis. With reference to economic thought in the left wing during the 1960s in Brazil, see Guido Mantega's A economia política brasileira, Petrópolis, Vozes, 1984.

the availability of foreign currencies and a negligible portion of national income, and that, when all was taken into account, foreign capital could be seen to bring in not only technical know-how but also a net capital balance (inflows were superior to outflows plus remittances). They further argued that in comparing the costs and benefits of this capital's participation in the country's economy its opponents forgot to include, on the side of benefits, its effects as a generator of both jobs and income.

From the point of view of economic analysis, as we can see, the debate about foreign capital had scarcely any interest at all. Its importance for us lies in one only point, which we have already stressed above: given its intensity and political appeal, it was an ideological element eliciting a reflexion about the question of the developmental pattern that would be most appropriate to the country, thus reinforcing the new dominant trend.

At a speculative level we may suggest that the crisis of developmentalism made way for a new ideological cycle in economic thought (one that was aborted by the 1964 coup d'état), i.e., a "reformistic" cycle, or perhaps a cycle of "reformistic developmentalism". In that final stage of "pure developmentalism" our conceptualization of the currents of economic thought begins to lose its validity or its explanatory power.

In fact, the analytical category which allowed us to organize all of our account of the history of economic thought in the decades of 1940 and 1950 — that is, the concept of "developmentalism" — begins to lose its power to explain the groupings of economists. For after all, the problem that posed itself in the early 1960s was no longer to defend or attack the process of establishing a modern industrial economy, whose irreversibility was fully acknowledged by everyone. The real question now was to determine which way to conduct Brazilian industrial capitalism, which had emerged with some severe distortions, particularly in the social area.

In fact, it seems that in this phase economists began to approach or move away from one another (in terms of their stand before national economic

and social problems) on the strength of new stimuli. To understand this transformation it is perhaps appropriate — given the economists' deeper political engagement and the strong "ideologization" of the economic debate, and given also that the country was on the verge of a conservative coup d'état — to distinguish economists according to three different stances: the conservative, the reformistic, and the revolutionary positions.

a) To the "right" of the political spectre neo-liberals and "non-nationalist" developmentalists — and, to a certain extent, also the developmentalists linked to the private sector — began to think and eventually work together, save for a few exceptions. The best expression of this fusion is likely to be Bulhões's and Campos's future association and the Finance and Planning Ministries, respectively, during the government of President Castelo Branco (1964-1967). The magazines and periodicals that used to convey their ideas continued to do so, but there was a substantial reinforcement on the part of the new institutions earlier formed to make political opposition against Goulart and which, with or without the formal awareness of the economists who supported them, had unmistakable prospects of a coup d'état.<sup>39</sup> The emphasis of this new group of economists was generally laid upon the ideas of controlling the expansion of the state's productive activities, attracting foreign capital, and giving priority to the control over inflation and foreign deficits in the conduction of economic policies. As a rule, they supported the enforcement of financial reforms but were divided, with regard to the land reform, into those who objected to it and those who, perhaps for feeling compelled not to oppose the stand taken by the Alliance for Progress, adopted a cautious attitude of support to a moderate reform. They were essentially favorable to strengthening Brazilian industrial capitalism without making any change

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(39) We refer specifically to the Brazilian Democratic Action Institute (IBAD) and to the Research and Social Studies Institute (IPES). See in this respect Dreifuss, R.E., 1964: A conquista do Estado, op.cit.

of course towards redistributing income and landed property by means of any reforms.

b) Between the "center" and the "center-left wing" (or "positive left wing", to use a term coined by San Thiago Dantas) were basically the nationalist developmentalists, who formed the new reformistic current. As we have noted earlier, they were at the embryonic stage of reformulating the original developmentalist proposal in search for a project that might engage the population at large into capitalist development by means of a distributist fiscal reform, and especially through a nationwide land reform. Other than that, they continued to advocate control over foreign capital and a widespread state intervention into the economy.

c) To the "left" of the political spectre there was, well in the foreground and going through a phase of intensive political activity, the Brazilian Communist Party. Its members eventually came closer to reformists in their perspective of an "alliance between laborers and the national progressive bourgeoisie", but they debated economic and social questions on the basis of a major concern about the revolutionary stage of a transition into socialism. The background for the militancy of PCB intellectuals was a favorable one as discussions about the land reform and foreign capital were in the order of the day. The novelty among leftists was the appearance of several dissident organizations and revolutionary projects that diverged from one another. Economists and intellectuals from both the PCB and these organizations, as well as independent leftists, produced a huge set of articles in which economic analysis was rather scarce and in which the emphasis lay on political discussions centered around the questions of the revolutionary stage and of the strategy and tactics of the Brazilian revolution.<sup>40</sup>

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(40) An extensive bibliographic review can be found in Chilcote, R.H., Revolution and structural change in Latin America: A bibliography on ideology, development, and the radical left (1930-1965), Stanford, Stanford University Press, 1970.

Our account goes up to March 1964. It is possible that the hypothetical reformistic cycle interrupted at that point will be born again, with more lasting effects, with the democratization of Brazilian society in the second half of the decade of 1980. Such is our hope.

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#### IV. SUMMARY AND CONCLUSIONS

#### IV. BY WAY OF CONCLUSION: SUMMARY AND FINAL REMARKS

The present work is a record of the evolution of economic thought in the Brazilian developmentalist cycle. It systematizes an extensive literature covering most books, specialized periodicals, and governmental documents of major relevance to researchers of economic ideas as generated in the major period of the country's industrial formation.

The basic and permanent challenge in its elaboration has been of a methodological character. Unlike books on the history of economic theory, this is a work about economic ideas as applied to a given historical context, most of them dissociated from academic commitments and valued chiefly for the concreteness of their links with actual history. For this reason, it has been necessary to search for methodological solutions that might be appropriate to a somewhat heterodox object of investigation, for they could not be found in textbooks covering the history of economic thought.

The orientation adopted thus sprang from the understanding that, in Brazil in its developmentalist stage, economic ideas were exposed and discussed in strict association to each author's economic project for the country, nearly always bearing only a remote relation to economic theory as such. The key to a systematization of Brazilian economic theory would therefore have to be found in a technique of systematic association between intellectual production and the actual process, extending, if possible, to the level of the relation between ideas and the economic/political conjuncture. The concept of "developmentalism", defined as an ideology of overcoming underdevelopment through capitalist industrialization with state planning and support, managed to solve the methodological problem.

In the first place, it proved adequate to the grouping of Brazilian economists in accordance with the affinity of their positions in the face of the country's economic problems. The chapters forming the first part of the work are organized in consonance with the basic idea of "currents of economic



thought", their main axle consisting of three developmentalist currents.

To the "right" of developmentalists a wide scope of conservative authors has been identified and named "neo-liberals". To the most outstanding personality among them, Eugênio Gudin, an extensive chapter has been devoted in the hope of doing justice to the intelligence and creativity of a man who may be regarded as the father of Brazilian economists.

Among developmentalists three distinct currents were identified, one in the private sector and the other two in the public sector. The distinction between the public and private sectors results from the fact that those who worked in the latter privileged the defense of entrepreneurial interests by virtue of their institutional commitments. The most important author in the private sector current was Roberto Simonsen, a pioneer of developmentalism in Brazil to whom a section has been devoted in the chapter dealing with the current of which he was the leader.

In the public sector a basic distinction has been made between developmentalist economists on the strength of their positions regarding state intervention and foreign capital participation. In the chapter devoted to the "non-nationalist" developmentalist strand emphasis is given to the works of Roberto Campos, its most influential and creative author. In the chapter concerning the "nationalist" current an extensive review is made of the works of Celso Furtado, the major intellectual leader of progressive economists in the country and one of the most renowned personalities in the field of social sciences in Latin America.

To the "left" of developmentalists we have identified the current of socialist economists, who were generally linked to the Brazilian Communist Party. In the chapter dealing with this current we have attempted to demonstrate how its economists supported the industrialization project by drawing on the conception that the development of the country's productive forces was an indispensable element to the transformation of the prevailing relations of production and to a future transition into socialism.

The concept of developmentalism has allowed us to group virtually all of the Brazilian economists who had an outstanding participation in the debates of the period. The major exception has been Ignácio Rangel, an author to whom we have devoted an extensive chapter showing how, drawing on his own theorization, he diverged both intelligently and creatively from the two groups of economists with which he had closer ideological links, i.e., nationalist developmentalists and socialists.

The concept of developmentalism has equally lent itself perfectly well to the analysis of the evolution of economic thought undertaken in Part II of this work. As an organizing method in all of that account we have used the idea of an "ideological cycle of developmentalism", which has proved adequate to a description of the dynamics of economic ideas in the period researched: developmentalist economic thought actually had its origins between 1930 and 1945, knew its maturational phase up to the mid-1950s, went through a boom period from that point to the early 1960s, and then suffered a crisis. The five chapters of Part II give an account of this evolution and relate the production of economic ideas to the different economic and political conjunctures of that period. As concerns the second part of this work, the author wishes to acknowledge his feeling of having managed to apply a methodology that was adequate to an understanding of the correspondence between intellectual history and actual history, as well as to express his satisfaction at having carried out a fascinating exercise in methodology.

It is not advisable in these closing remarks to yield to the temptation of speculating about any "lessons from history". It does not seem difficult to draw some remote parallels between what has been said as of late in the discussions concerning Brazilian economy with its problems and what was said in those days, with the purpose of substantiating current debates. Yet, the feeling one gets is that the subsidies to this end would be minimal, both because developmentalist economic thought concerned a reality that is now remote and very different from the present one, and because no economic discussions in

that period were inclusive, most of the controversies remaining open and waiting, perhaps, for economic historians interested in attempting to determine "who was right". The contribution meant to be made by this work about intellectual history is not, therefore, the identification of "lessons", but rather the recovery of a part of the cultural patrimony of a critical period in Brazilian history, thereby enhancing the understanding of the country's economic and social formation.

In closing this work the author allows himself a few additional considerations of a subjective nature. One of them is in the order of a self-evaluation. From the beginning, this work has had the major goal of being a didactic reference source for researchers of the developmentalist cycle, including graduation students in the area of social sciences. The author feels that this goal has been accomplished.

A second observation concerns the quality of the object studied: has intellectual production in the field of economics contributed to the country's development? The answer, which can only be a subjective one, given that there is no way to dimension the results, is fully affirmative. The author feels that the economic debate has fulfilled its basic social function, that is, it has fostered the deepening and the socialization of a critical awareness about the country's social and economic problems, thus enriching and democratizing the political decision-making process. What strikes us as surprising in terms of a period in which schools of economics were barely coming into being is the intensity achieved by the debate among economists, as well as the farsightedness with which political and intellectual elites gradually became aware of the economic process under way.

It is no surprise that the question of social reforms was incorporated into the intellectual debate only as of the early 1960s. From the very beginning of this research, when the author searched for the basic foundations of developmentalist thinking, there emerged a suspicion that Brazilian society during the developmentalist cycle was still not politically prepared for an

ideology of either alternative (reformistic) capitalism or socialism to be disseminated. This initial impression has been reinforced throughout the preparation of this work: it would seem that, given the characteristics of the political and social structure then existing in the country — i.e., the institutional framework, the structures of property and domination, etc. — the avant-garde project that was felt to be historically feasible was that of implementing industrialization pure and simple. It is for no other reason that the only political group that preached the undertaking of reforms since the decade of 1930 — i.e., the Brazilian Communist Party — was to have a somewhat significant ideological influence only during its ephemeral period of legality in the immediate post-war phase and again much later, in the late 1950s and early 1960s, i.e., in the period of crisis of developmentalism.

In this latter stage when developmentalist thought gave some signs of exhaustion, there began to appear the first analytical formulations designed to defend capitalism combined with greater social justice, as well as income and land redistribution. As a final speculation, it may be said that the military coup of 1964 aborted the first few stages of what might have become a slow but steady political process of social achievements, and it simultaneously aborted what would have possibly become its ideological counterpart at the level of economic thought: a new ideological cycle — of a "reformistic" or "reformistic-developmental" nature — to replace the developmentalist cycle proper, which had already come to an end. It is possible that historians of economic thought in the post-1964 period will come to identify the main axle of the Brazilian economic debate in an ideology of "furthering capitalism" with no consideration to social aspects and under attacks by an intelligentsia which, albeit progressive, had a limited power to become ideologically influential. They may also conclude that with the redemocratization of Brazilian society in the early 1980s, the reformistic perspective — which had been recovering ground for some years at the ideological level — did not place itself at the center of the intellectual debate merely because

an acute economic crisis set in. When once the crisis has been overcome, the threshold of a new democratic stage in Brazilian history we are now crossing may also prove to be the beginning of a period of significant social achievements, reflected in economic thought in the form of a reformistic ideological cycle that is perhaps about to be inaugurated half-way through the decade of 1980. There now prevails in Brazilian society an atmosphere of hope that reminds us of the best moments in the developmentalist era.

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LIST OF ABBREVIATIONS

ACSP	- São Paulo Commercial Association
AESP	- São Paulo Economists' Association
ALN	- National Liberating Alliance
BNDE	- National Bank for Economic Development
CACEX	- Export and Import Department (Bank of Brazil)
CADE	- Economic Defense Administrative Commission
CCP	- Central Price Committee
CDE	- Economic Development Council
CDI	- Industrial Development Council
CEDPEN	- National Campaign for Oil Defense
CEXIM	- Export and Import Division (Bank of Brazil)
CFCE	- Federal Foreign Trade Council
CIME	- Electric Material Industries Committee
CME	- Co-ordination for Economic Mobilization
CNC	- National Trade Confederation
CND	- National Development Council
CNE	- National Economic Council
CNI	- National Confederation of Industries
CNMS	- National Mining and Steelworks Council
CNPA	- National Agrarian Policies Council
CNPIC	- National Industrial and Commercial Policy Council
CNTI	- National Industrial Workers Confederation
COFAP	- Fiscalization, Supply and Prices Commission
CPA	- Customs Policy Commission
CPE	- Economic Planning Committee
CREAI	- Agricultural and Industrial Credit Department
CTEF	- Technical Council for Economics and Finance
DASP	- Public Sector's Administrative Office

FAC - Federation of Commercial Associations  
FCSP - São Paulo Federation of Commerce  
FDLN - National Democratic Liberating Front  
FGV - Getúlio Vargas Foundation  
FIESP - São Paulo Federation of Industries  
FNE - National Electrification Fund  
GTDN - Working Group for Northeastern Development  
IAA - Sugar and Alcohol Institute  
IBESP - Brazilian Institute of Economics, Sociology and Politics  
IPT - Technological Research Institute  
ISEB - Institute for Advanced Brazilian Studies  
OPENO - Operation Northeast Project  
PCB - Brazilian Communist Party  
PSD - Social Democratic Party  
PSP - Social Progressive Party  
PTB - Brazilian Labor Party  
SUDENE - Superintendence for Northeastern Development  
SUMOC - Money and Credit Superintendence  
UDN - National Democratic Union  
ULTAB - Union of Brazilian Farmers and Laborers

B I B L I O G R A P H YA. PERIODICALS

- Cadernos de Nosso Tempo (CNT) - 1953-1955
- Carta Mensal (C.N.) (National Trade Confederation) - 1955-1964
- Conjuntura Econômica (C.E.) - 1947-1964
- Desenvolvimento e Conjuntura (D&C) - 1957-1964
- Digesto Econômico (D.E.) - 1944-1964
- Econômica Brasileira (E.B.) - 1955-1962
- Estudos Econômicos (E.E.) - 1950-1954
- Estudos Sociais (E.S.) - 1958-1964
- O Economista (O.E.) - 1946-1947
- O Observador Econômico e Financeiro (OEF) - 1945-1964
- Revista Bancária Brasileira (RBB) - 1945-1964
- Revista Brasileira de Ciências Sociais (RBCS) - 1961-1964
- Revista Brasileira de Economia (RBE) - 1947-1964
- Revista Brasileira de Estudos Políticos (RBEP) - 1959-1964
- Revista Brasiliense (R.B.) - 1955-1964
- Revista de Ciências Econômicas (RCE) - 1945-1952; 1955-1964
- Revista de Estudos Sócio-Econômicos (RESE) (DIEESE)
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