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CONTENTS

Education and changing production patterns with social equity. <i>Fernando Fajnzylber.</i>	7
The empty box syndrome. <i>Pitou van Dijk.</i>	21
Consolidating democracy and development in Chile. <i>Osvaldo Sunkel.</i>	37
Development pattern and environment in Brazil. <i>Roberto P. Guimarães.</i>	47
Integration today: bases and options. <i>Eugenio Lahera.</i>	63
Globalization and convergence: Latin America in a changing world. <i>José Miguel Benavente and Peter J. West.</i>	77
The world agricultural outlook in the 1990s. <i>Giovanni Di Girolamo.</i>	95
Evolution of the rural dimension in Latin America and the Caribbean. <i>Emiliano Ortega.</i>	115
The potential of Mexican agriculture and options for the future. <i>Julio López.</i>	137
The privatization of the Argentine telephone system. <i>Alejandra Herrera.</i>	149
Rationalizing social policy: evaluation and viability. <i>Ernesto Cohen and Rolando Franco.</i>	163
The political economy of the developmentalist State in Brazil. <i>José Luis Fiori.</i>	173
Guidelines for contributors to <i>CEPAL Review.</i>	187
Recent ECLAC publications.	189

The political economy of the developmentalist State in Brazil

José Luis Fiori*

The study of the political economy of the crisis of the State and its role in the trajectory of Latin American development is an urgent political task which could also contribute to the historical and theoretical debate about industrial development in late evolving capitalist economies.

The central thesis of this article is that the Brazilian developmentalist State was predominantly authoritarian. As it was not sufficiently strong, however, it ended up in reality as a prisoner of the interests embodied in the sociopolitical pact which that same State attempted to form throughout its history. For this reason, it could not rid itself of its protectionist rigidity or its exclusive character, nor could it avoid the failure of its key element: the public sector. That failure was caused by a passive strategy of financing through indebtedness and markedly inflationary attempts to harmonize social interests.

The article analyses the various dimensions of the developmentalist pact, including the relations of the State with private capital, workers, regional oligarchies and the urban citizenry. It then examines the various crises and cycles through which the developmentalist State passed and concludes with a reflection on some queries that arise in connection with the present situation.

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If two individuals observe a figure from afar and one says that it is a man and the other, a horse, then before concluding that they are incapable of distinguishing a man from a horse, it may reasonably be considered that they may be observing a centaur (in which case it could be said that they are both wrong, because centaurs do not exist).

NORBERTO BOBBIO, *O futuro da democracia*

Introduction

Efforts to defend the role of the State in the development of late-evolving capitalist economies are not new, but neither are the ideological arguments which form part of the neo-liberal debate today about the "depoliticization of the market" in the central and peripheral countries. In the final analysis, mercantilism and advocacy of free trade, together with nationalist and liberal theses, oppose and succeed each other throughout the history of capitalism with a regularity which, at times, recalls the ancient Greek idea of stationary circularity.

In the 1950s, both in Latin America and in advanced capitalist countries, developmentalism overcame liberal resistance and gained a consensus analogous in its thrust and scope to Keynesianism in Europe. In these circumstances, the proposal to create independent national industrialized economies, promoted by judicious State activity, won the support of extremely diverse sectors of the political spectrum: from conservative nationalism to the anti-imperialist Left, including the timid -though active- support of liberals. As occurred in other places, the latter remained on the defensive from the theoretical point of view during the entire period, even though they participated in most of the "developmentalist" governments, both democratic and authoritarian.

In this sense, it may be said that the supremacy of the "developmentalist State" in Latin America was the counterpart of the "Keynesian" hegemony in Europe. And that supremacy was constructed almost exclusively on the analytic and conceptual basis provided by the economic thinking and project of ECLAC, so that its central ideas played a decisive part in the political struggles which accompanied the economic and social changes that took place in Latin America in the last four decades.

Very soon, however, in the 1950s and 1960s, the more lucid and impartial observers of the Latin American situation realized that the developmentalist strategy for industrialization was viable in only a few countries. Thus, when the international crisis hit Latin America in the mid-1970s, the ECLAC-inspired industrialization project could only be said to be in force in Brazil and Mexico. By the end of the 1980s, only Brazil had still not entirely abandoned the developmentalist model, in spite of being completely paralyzed by external indebtedness and the economic and political failure of the State: a failure which took the form of a long period of ungovernability, accompanied by a slow and complex transition to democracy.

It is against this background that, in the early 1990s, the ideas which had dominated the economic and political thinking of the central countries since the 1970s have gained rapid acceptance among Brazil's political and intellectual elites. With a decade of delay, neoliberalism is today mounting an unprecedented ideological offensive against the Brazilian State, which is seen as the main culprit of the stagflation and economic losses of the 1980s.

As sometimes happens, a new ideological hegemony succeeds in temporarily sweeping away the knowledge accumulated in the past, replacing history and theory with pure and simple ideology capable of suddenly convincing intellectuals and politicians that only the market holds the secret of economic success and universal happiness. As always, in such a moment of ideological euphoria it is difficult to think objectively and analyse in a critical spirit. Thus, developmentalist theses have very quickly been put on the theoretical and ideological defensive, and their survival now depends much more on the silent power of resistance of the interests which grew up under their aegis than on the force of their arguments. Their sudden fragility surprises even the least observant, although it is more an inevitable consequence of developmentalist incoherences and contradictions than of the virtues or originality of the new liberal arguments.

In reality, the problem is not so simple, and there are no unilateral causes or responsibilities for it, because by definition it is difficult for the classical separation between the State and the economy or society to fit in with the conditions prevailing in countries of

late and peripheral development. In fact, the crux of the issue lies precisely in understanding those relations and perceiving how they explain the simultaneous success and failure of the Brazilian State.

Accepting the short cuts involved in ideological generalities means ignoring the fact that the developmentalist project in Brazil was backed by a solid, politically conservative coalition which always enjoyed the support of the advocates of economic liberalism. It also means ignoring the fact that, before the crisis of the 1980s, developmentalism achieved extraordinary success in its industrialization goals. In this way, theoretical and political attention is diverted away from the fact that the final crisis not only basically followed the same course of success, but also paradoxically ended up by affecting its own ruling force, in a movement so inherently complex as to make it difficult to distinguish between causes and effects.

Our central thesis in this regard is that the Brazilian developmentalist State was predominantly authoritarian. As it was not sufficiently strong, however, it ended up in fact as a prisoner of the interests gathered together in the sociopolitical pact which it attempted to form during those decades. For this reason, it could not rid itself of its rigid protectionist attitude or of its socially exclusive character, nor could it avoid the failure of its key element –the public sector– due to the use of a passive strategy of financing expenditures through indebtedness and the tendency towards the inflationary harmonization of interests.

Thus, after forty years of State-developmental consensus, all the lessons of history about underdevelopment, the periphery and even the strategic role of the State were forgotten in the heat of the political struggle sparked off by the severity of the economic crisis, although the most recent example of the potential role of the State is to be found in the experiences of the East Asian countries in adjusting to the new international political and economic order.

For this reason, analysing the political economy of the crisis of the State and of its role in the trajectory of Latin American developmentalism is not only a politically urgent task but may also contribute to the larger historical and theoretical debate about industrial development in late-evolving peripheral capitalist economies.

I

The main dimensions of the developmentalist pact

There seems to be consensus with respect to the role played by the State as an agglutinating agent in the process of industrial accumulation in Brazil.

It was always the State which determined the level of integration and the possibilities of expansion of international capital, as well as the areas of expansion for domestic capital, so that the opening of new frontiers for accumulation always depended on its agency. (Coutinho and Belluzzo, 1982, p. 22-23).

However, neither the size nor the functions of the public sector give a clear idea of the specific nature of the role of the State in Brazilian industrialization. Nor does the authoritarianism of its political system during the "developmentalist cycle" explain, by itself, the organizational structure and the simultaneous strength and fragility of the public bureaucracies *vis-à-vis* private interests. In this sense, the crisis of the 1980s is instructive insofar as it brings out the real aspects and dimensions that go to make up the special nature of the Brazilian "style of development". In fact, these were the aspects and dimensions of an economic, social and political pact which, in our judgment, prevailed during the entire developmentalist trajectory, simultaneously and contradictorily stimulating the motive forces of economic growth but also simultaneously its dysfunctions, which were responsible for the financial and political disorder which, in the 1980s, eventually paralyzed its own *condotiero*, the State.

Of course, when we affirm that that crisis reveals the critical features which were always present in that pact, we are not ignoring the profound structural changes brought about by industrialization and their obvious social consequences. It would be absurd not to see that the material changes in the productive base were responsible, especially as from the 1950s, for radical demographic, sociological, cultural and political changes which gave rise, among other phenomena, to new patterns of behaviour and new interest groups.

During that period, the agricultural frontier expanded and was closed, powerful new agro-export and agro-industrial complexes were created, while at the same time small traditional land holdings were broken up, freeing or expelling populations which

were forced into uncontrolled internal migrations, thus changing the whole economic, social and cultural panorama of our labour force. New productive sectors became oligopolistic and were internationalized, and metalworking and petrochemical complexes which were to stimulate the emergence of a "modern" working class were set up or expanded. Together with the growth of the public sector of the economy, there was corresponding expansion of the cities, the marginated masses, and the middle classes, regardless of whether the latter were linked or not to the expanding State bureaucracy.

In this same period, the institutional apparatus of the State expanded and became more complex, but there were also three changes of political regime, two changes of systems of government, as well as two sweeping administrative reforms and a similar number of reforms of the public financial system, several modifications of the tax system, and at least three changes in the institutional structure of the public social security system.

However, it would be analytical blindness not to perceive also that certain phenomena persisted or reappeared repeatedly over time: in the economic field, for example, the issue of the structure of land ownership, together with fiscal and exchange rate crises aggravated by chronic difficulties of a financial nature; in the sociological sphere, the various manifestations of authoritarianism in the social relations of production; and finally, in politics, the permanent tensions between local powers and authoritarian centralized bodies and between civil populism and military interventionism.

This heterodox and explosive combination of change and continuation seems to indicate that Brazil unquestionably experienced a form of late industrialization different from those of the second half of the nineteenth century studied by Gershenkron, or those which Johnson (1983) and Amsden (1989), among others, identified in Asian experiences after the Second World War.

In metaphoric language, it could be said that this developmentalist pact of a conservative nature was organized around several fundamental issues, especially that of the political and economic relations of

the State with private capital and with labour and that of the power relations of the State with the regional oligarchies and with the "urban citizenry".

1. *The State and private capital*

The first point to note here is that there was the reaffirmation of a very old rule, which remains unchanged: the structure of land ownership is untouchable. This was part of the tacit agreement in Brazil which vetoed every attempt at agrarian reform and sanctified the protection of agro-mercantile capital interests as an essential condition of the industrialization pact.

From the hierarchical point of view, only later was it possible to define the norms governing the relations between the State and domestic and foreign industrial capital, in accordance with what some have called "associate capitalism" (Cardoso, 1975), but at all events this was very much prior to the industrial acceleration of the 1950s, and it coincided, in the 1920s, with the arrival of the first wave of foreign affiliates linked to the industrial sector (Lessa and Dain, 1982). It was at this time that the pact really setting up the Brazilian industrial "triad" was established (Evans, 1981). This pact was based on two fundamental clauses, with the State as its great guarantor and moving spirit.

The first clause reserved for domestic capital the areas of greatest interest to the State, as fields of development. The second laid down rules for the horizontal distribution of profits, according to which the profitability of the areas controlled by domestic capital would never be less than that of the industrial area, which was then under foreign control (Lessa and Dain, 1982, pp. 221 and 222).

With the advance of industrialization, this agreement described by Lessa and Dain was broadened as domestic capital also entered the industrial field. In essence, however, it maintained its validity until the 1980s and had some permanent structural and institutional effects which were reflected basically in the way in which industrial production was financed and expanded and the way in which State protection and mediation were organized.

Thus, and primarily, the fragility and dispersion of domestic capital, together with the protection given to an atrophied private banking system, transferred the task of financing the big investment projects needed for industrialization to public credit. At

the same time, however, the anti-State attitude and the heterogeneity of business interests systematically impeded every effort by the public sector to bring about more dynamic financial centralization. Consequently, it may be said that in Brazil the public institutions only played a passive financial role, i.e., that of providing capital in various forms, including subsidized credit. They did not participate as an agent in the process of the monopolization of capital (Távares, 1978, p. 42).

Consequently, industrialization was ultimately financed by resorting to inflation and internal and external public indebtedness: both equally precarious ways of sustaining a process of growth which some eventually came to believe should be self-sustaining. This occurred because in Brazil, unlike France, Japan and South Korea, the State was never able to resolve the financial aspects of industrialization. The political and ideological veto exercised by its conservative supporters placed it in a passive position, based on extremely fragile foundations, as would be seen later, when international resources became scarce and it was no longer possible to resort to inflation or domestic indebtedness in order to support the process of industrial accumulation.

Secondly, as a direct result of what has been called the "Holy Alliance", international capital assumed and maintained a leading position in industry, but domestic capital always managed to obtain profits which systematically exceeded the true potential values of its operations (Lessa and Dain, p. 225). Meanwhile, this coexistence within the same market of types of capital with different levels of productivity and competitiveness was only possible through a kind of ongoing State protection which blocked the inevitable process of centralization and preserved by political means the "perverted" patterns of profitability of certain segments of capital.

Thirdly, the inevitable political freezing of this protectionism, which Fajnzylber (1983) termed "frivolous", inhibited the emergence of more aggressive business sector strategies for technological development aimed at increasing the productivity and competitiveness of domestic capital, which naturally affected the overall productivity and competitiveness of the Brazilian economy over time.

Fourthly, these strategic options or vetos eventually led to a kind of imperfect centralization, something like a politico-structural blockage of the centralization of capital (Lessa and Dain, p. 223).

That blockage gave rise to a process of sectoral monopolization which was not accompanied by the centralization of capital or business conglomeration, both of which are indispensable factors for multiplying private sector energies in late-evolving capitalist economies. Thus, while the Brazilian State was unable to use its power to articulate the industrialization process organically, neither was there any private articulation of any kind of "financial capital".

Another effect which was produced directly by the political rules of the foundational pact of Brazilian developmentalism was the maintenance and further reproduction of structural heterogeneity (Pinto, 1965) which constantly reconstituted itself at levels ever more complex and distant from those of the old "dualism" of which so much was said in the 1950s. This was "modern", politically protected heterogeneity, which arose and grew in all regions and segments of the economy.

Another important effect was felt in the area of the institutional organization of State protection and arbitration. The veto power of the various regional or sectoral interest groups, recognized in the original pact and confirmed because of its financial or electoral contribution to the political reproduction of the dominant order, eventually came to be concentrated in certain groups which literally appropriated the centres of State decision-making responsible for protecting their captive markets. This phenomenon seriously restricted the autonomy of the economic bureaucracies: an autonomy which was an essential element in the success of East Asian industrialization, as it was also for the reconstruction of France after the Second World War. Thus, there was little bureaucratic autonomy *vis-à-vis* domestic capital and still less with respect to foreign capital, the financial and commercial independence of which was undoubtedly a key element in Brazilian associate capitalism.

In this way, the State was obliged to accommodate each of its projects to the specific and changing interests of each segment of capital. However, since none of those interests or groups of interests managed to gain ascendancy and make the State's objective viable, the State was constantly harassed by innumerable contradictory demands which it was unable to reconcile and satisfy (Cardoso de Mello and Belluzzo, 1982, p. 157).

This permanent instability and tension not only reduced the leeway for autonomous strategic initiatives by the State but also repeatedly impeded the

reconsideration of positions in respect of the withdrawal of protective measures or stabilization of the currency. On the contrary, in all the cyclical crises which accompanied Brazilian industrial expansion, the members of the original grand pact absolutely vetoed orthodox stabilization policies, leaving the State with no option but to "flee ahead" (Fiori, 1984) in search of new forms of indebtedness which could boost short-term growth, at the expense of the State's own ever-increasing fiscal fragility.

In each new crisis, this process only served to increase and aggravate the battle among the various segments of capital for control of the State's monetary and juridical capacity to arbitrate, giving rise to an interminable struggle accompanied, as a corollary, by chronic financial, juridical and political instability (Fiori, 1984, p. 207-208). This struggle was undoubtedly the main factor responsible for the dissolution of the "stable future prospects" indispensable for the more modern sectors of the economy.

In this sense, inflation always had a highly political dimension, inasmuch as it was an essential element in the harmonization of the various confederated interests, which were the real culprits of the unstable and volatile course being run by developmentalist macroeconomic policy. Thus, although the fact that Brazil was a closed economy with an internationally isolated currency (despite its great dependence on the international capital circuits) allowed the Brazilian State to direct its monetary and exchange rate policies in a relatively elastic manner, subordinating them simultaneously to the associated interests and to its aim of promoting industrialization, that greater freedom also impeded the implementation of reforms which could have led to more stable macroeconomic scenarios.

This last option was always eluded, in order to avoid collisions among the various economic interests which formed part of the pact and were involved in the industrialization strategy. In this case, too, it was decided to flee ahead by simply passing on costs and responsibilities, until, with the crisis of the 1980s, that strategy became impossible, as did recourse to stabilization measures.

2. The State and the workers

With regard to this chapter of the developmentalist pact, it is worth recalling that slavery, as the dominant form of the organization of productive labour,

was endorsed by the monarchy (1822-1889) and was only abolished in Brazil in 1888. Moreover, the migratory flows from Europe, which came to replace slave labour, were decisively encouraged by the State, thus making the labour market a pioneering area of State intervention and regulation. It would be beyond the scope of this paper to recall also the police measures with which the governments of the Old Republic (1889-1930) faced the labour issue. Although the first legislative initiatives in the area of social security appeared as early as 1923, the basic rule in the organization of the relations between the State, private capital and labour was repression, intermittently replaced or complemented with various forms of populist co-optation, especially of urban workers. This system of a triangular relationship between the State, private capital and wage-earners remained practically unchanged, in spite of the profound changes produced by the industrialization process. Consequently, in this case as well, the basic rules for the organization of labour relations during the "developmentalist cycle" were defined, tried out, and given the seal of approval long before industry became the leading light of Brazilian capitalist development.

We have already commented on the corporative and authoritarian nature of the labour, trade union and wage legislation adopted by the Brazilian State as from the New State (1937-1945). That same legislation was to remain nearly intact during the democratic period (1945-1964) and even during the military regime, which lasted until 1985. Throughout that time, the State managed wages in a coercive manner, during the democratic phase through definition of the preferential value of the "minimum wage" or through the fixing of public sector wages, and during most of the military regime, through an official formula for calculating the readjustment of all private sector wages. It can thus be said that a basic rule of the conservative pact was that conflicts in respect of income distribution were made political and State concerns.

However, this was only the foundational formula –imposed by circumstances but also necessary– for the rules which governed worker participation in the developmentalist pact. Not only was it decided that the State would play a permanent leading role in labour relations –not just as an arbiter– by restricting or repressing union activity, but it was also decided to base industrialization on "low wages" (Medeiros,

1992), involving the widespread use in rotation of a labour force whose levels of skills were never considered an important element in the development of microeconomic competitiveness. It represented the choice of a kind of Taylorism, without Fordism.

Brazilian business associations openly took it upon themselves to defend this wage strategy. Taking as their starting point the great productive and regional heterogeneity of the Brazilian economy (assumed, once again, to be an immutable fact), the business sector proposed that the real average wage should remain constant or grow less than the per capita product. Within this strategy, rationalized on the grounds of the need for growth with low wages, it was supposed that expansion of the overall wage bill should only occur as a result of displacement of the active population from the countryside to the big cities (Medeiros, 1992, p. 228). This was an objective enthusiastically assumed by the military regime which began in 1964 and which, together with the adoption of this wage policy, also did away with job stability.

It is very interesting, in this respect, to look at the economic and social dynamics which led to the political crises of the 1960s and 1980s, because although it cannot be categorically stated that they were preceded by a phenomenon of lower profit margins, it is nevertheless significant that they erupted after substantial wage increases. These increases were followed by inflationary spurts linked to the immediate fiscal and financial crises of the State, during which there was a hard struggle over income distribution, with the aim of preserving the purchasing power already gained. In fact, on both occasions this defensive action by the labour unions was used by the ruling classes as a pretext, from the economic point of view, for speeding up price increases and making this appear as a decisive political factor responsible for upsetting the institutional political order.

Thus, it can hardly come as a surprise that the progress of the Brazilian economy towards a style of growth propelled by mass consumption should have become a mirage, always overtaken by the economic movement of "fleeing ahead", led by Brazil's political, military and technocratic elites. On the one hand, there was a crisis which ended in a military coup, while on the other there was a crisis which ended in a democratic transition, accompanied by a chronic process of contained hyper-inflation. In spite of the

new political freedom and the trade union movement, the result was a new wage squeeze which was even worse than that of the 1960s.

The structural consequence of this political option adopted in the conservative pact for sustaining the developmentalist State was not only enormous wage dispersion and segmentation of labour markets, but also the formation of a whole set of social, individual and regional inequalities which have now reached levels without precedent in the capitalist world. Thus, in 1980 the share of total income received by the highest quintile of the population was 27.7 times greater than that of the lowest quintile. This inequality increased because of the powerlessness of the State to face the interests linked with the land ownership structure and the monopolization of urban spaces, in which the degree of capital accumulation, within the framework of unchecked metropolitan expansion, eventually relegated a significant part of the population to a state of almost complete marginality in terms of access to basic social services.

Social inequalities became so extreme that during the economic crisis of the 1980s, in spite of the return to democracy, it was impossible to appeal to a policy of solidarity with respect to adjustments and stabilization, based on social concertation. In the early 1990s, and in extremely perverse ways, wages are once again seen as the factor responsible for the hyperinflationary process, and workers are called upon to support a policy of adjustment and stabilization, which –ironically, if it were not so tragic– punishes them as the culprits of the inflation which has been part of the entire history of Brazilian industrialization, consistently based on a policy of low wages.

3. *The State and the regional oligarchies*

In Brazil, as in several other Latin American countries, the relations between the central power and local bosses have been a key element in the organization and stabilization of the State ever since independence (1822). Unlike the other countries of the region, however, in Brazil the vastness of the territory, the lack of communications, and the segmentation of productive activity, oriented predominantly towards foreign markets, made it possible for land owners to build up extremely solid oligarchies of regional power. Those oligarchies were so strong and autonomous that it can be said that only the common

interest in the face of foreign pressures to end slavery explain the ties of mutual dependence and “solidarity” which have sustained the unity of the national political institutions, in spite of the distances and differences. This is why the abolition of slavery in 1888 led to the immediate proclamation of the republic in 1889, reframing in a new and challenging way the problem of the geopolitical balance of power among the various regional oligarchies.

During the Old Republic, also called the oligarchical republic (1889-1930), which was governed by a rigorously liberal Constitution approved in 1891, this question of balance was resolved through an informal agreement known as “the governors’ policy”. This recognized the juridical and fiscal autonomy of the subnational states and did not question the power of the oligarchical fractions arising from electoral victories at the local level. At the same time –or in return– the regional oligarchies supported a non-interventionist central State and recognized its implicit leading position in the hierarchy of the various states, the order of which was determined by their relative economic power or, in other words, by their agro-business exporting complexes. In the place of slavery, the basic implicit common interest of this new agreement lay in the inviolability of the structure of land ownership, on which the power of the joint oligarchies rested.

The revolution of 1930 represented, above all, the armed questioning of the political and electoral rules which served as the basis for the “governors’ policy”; however, the dictatorship of the New State went even further and explicitly proposed to reduce the power of the regional oligarchies, as a condition for modernity.

In this sense, the developmentalist State was created in opposition to the joint power of the oligarchies, and it favoured a centralization of power which was considered to be indispensable for the unification and organization of Brazilian society and its economy. However, since this proposal could never have been accompanied by the power, conditions or even the real desire to modify the forms of land ownership, the developmentalist State’s aim of furthering centralization was eventually weakened, worn down or even completely perverted, due to the relations of permanent tension –and co-optation– between the wishes of the central authorities and the political power of the innumerable and heterogeneous regional interests.

This phenomenon was already apparent in the New State, but it became much more marked during the democratic regime (1945-1964) and –paradoxically– even continued to be vigorous during the military regime, in spite of that regime's policy of favouring fiscal concentration and the reduction of the political power of state governors. During the whole of this period, successive modifications of the electoral system of proportional representation meant that the more politically "backward" districts of the country were always over-represented in the National Congress. This made it possible to neutralize the weight of the predominantly urban "modern" vote and led to the conflict which Furtado (1979) saw as a basic cause of the crisis which ended in the military coup of 1964: i.e., the conflict between the innovative will of the Presidential figures elected by universal suffrage and the conservative resistance of the Congress, controlled by the over-numerous representatives of the pockets of political backwardness and strong oligarchical control.

With the advance of the industrialization and urbanization process, the power of the agrarian oligarchies of the Centre-South (more industrialized) region rapidly declined, but such power remained intact in the North and Northeast of the country, where there were still huge population and electoral contingents linked, in general, to the most backward productive sectors of the Brazilian economy.

With industrialization, the relations between backwardness and modernity became more complex and no longer corresponded to a simple dualist model. The notion of "structural heterogeneity" seeks in fact to reflect that new configuration, in which pockets of political and economic backwardness are found throughout all regions and sectors of activity. Undoubtedly, however, from a strictly political and electoral point of view, there exists, even today, a certain superimposition which permits the continued existence of regions of the country in which the old oligarchies, based on political relations which are personal in nature and involve favours or economic dependence, still predominate: during the entire developmental cycle, these oligarchies, which controlled the economies and political power in these more backward regions, obtained positions and favours from the State precisely because of their enormous capacity for electoral mobilization, which was indispensable for the political reproduction of the conservative order.

Even during the military regime it was impossible to dispense with these forms of support and the consequent presence of oligarchical interests in the structures and the decision-making centres favouring industrial modernity. Thus, this rule of accommodation and mutual dependence between "modernity" and "backwardness" was a basic dimension of the developmental pact, becoming the true essence of what Weffort (1978) called "the compromise State": a compromise which weakened the modernizing zeal of the technocratic elites and military men involved in the central administration of the State.

4. *The State and the "urban citizenry"*

Mention has already been made of the speed and intensity attained by the urbanization process in Brazil as from the 1950s. That process gave rise to the expansion and rapid renewal of the wage-earning population and the emergence of large metropolises in which there was a concentration of populations totally margined from the labour markets most directly linked to industrial growth (Quijano, 1974). This process also disrupted the geo-electoral balance which had existed prior to the 1950s.

During the Old Republic, the legal impediments to political citizenship had been so strict that they never permitted the participation of more than 3% of the population in Presidential elections, but during the New State such restrictions became absolute, due to the dictatorial nature of the political regime. The promulgation of the Constitution of 1946, however, although restricting the electoral participation of illiterates, opened up a space for new and broader political citizenship which was progressively occupied by the masses migrating to the urban centres, who thus joined the working and middle classes in this respect, and such enfranchisement even extended to the pockets of marginality.

Since then, the electoral weight of this new citizenry has grown by leaps and bounds, rapidly threatening the electoral strength of the more backward and still predominantly agricultural regions. In the face of this new challenge, the old originally oligarchical structures of participation proved inadequate as channels of incorporation, but even so they remained sufficiently strong to dominate the political system created in 1945, and they systematically

impeded the development of national, ideologically oriented political parties.

Thus, there rapidly emerged, in the words of R. Dahl (1971), a situation of incompatibility between the number and rapid growth of the new urban citizenry and the scanty institutionalization and competence permitted by the old rules of the intra-oligarchical pact, which had been incorporated into the political structures of the developmentalist State.

The conservative response to this new challenge had various nuances, but it maintained a constant common denominator: authoritarianism, either explicit, as in the 1930s or after the mid-1960s, or in the form of co-optation and populism, which impeded the consolidation of solid and effective representative institutions during the period of democracy.

In reality, the conservative pact which sustained the Brazilian developmentalist State never included democratic participation in any of its forms, and consequently never sponsored the institutionalization of structures which could respond to pressures by expanding political and social citizenship.

Thus, when it found itself obliged to coexist with democracy, the State could neither impede the appearance of populism, nor control its spread as the only possible means of electoral mobilization of the urban populations. And it was only able to respond to this challenge by having recourse to the State apparatus itself, as an instrument of mobilization and co-optation of support on the basis of clientage, which involved as its counterpart, among other things, the erosion of existing hierarchies and of the efficiency of the public bureaucracies, especially those responsible for the social promotion and protection of the population.

The conservative pact's rejection of the idea of political participation was so radical that, even during the long periods of authoritarian rule, the political elites and even the State itself never proposed any type of popular mobilization as a means of sustaining and strengthening its project of conservative modernization.

This attitude had significant consequences. Firstly, it affected the way in which the different governments and regimes identified with developmentalism sought legitimacy, i.e., through performance and efficiency.

Secondly, it affected the form of discourse of the State and the political elites. To the contrary of what was observed by Gershenkron, in Brazil eclecticism

was the keynote and ideas became entangled in an unfailingly inconsistent and demobilizing way. In the final analysis, the nationalist component of Brazilian development never enjoyed massive popular support, nor even that of the business sector, and it eventually became the banner of "national security", with exclusively military support, while its Statist component had an almost exclusively technocratic base. However, both components coexisted on almost always friendly terms with a rabidly "liberalist" discourse maintained by the vast majority of the business sector, which had the "competence" to know how to take advantage of the State, while attacking it ideologically.

This succinct analysis of the four chapters or basic issues of the conservative commitment which sustained the industrialization strategy in Brazil makes it possible to draw several conclusions with respect to the nature of the most successful developmentalist State in Latin America.

Although the most visible manifestations of its weaknesses were in the fiscal and financial areas, its deepest roots were political and, in the final analysis, were the result of the limits imposed by the confederated interests on the decision-making autonomy of the State. The State expanded its organization and extended its presence in terms of production or regulation to nearly all fields of economic activity and social interaction, almost always in authoritarian fashion. But although the State was "strong" when it came to disciplining the workers and the urban citizenry, it was extremely weak and submissive in the face of the economic and political demands of the oligarchies linked to backward areas and of the big corporations, which obtained monopoly conditions and advantages without ever committing themselves, as occurred in the Asian countries, to clear goals in terms of productivity and competitiveness, and still less in the areas of the protection and training of their own labour force.

There were very few moments during the "developmentalist cycle" when the economic bureaucracy of the State managed to resist external pressures and its own internal "Balkanization". Its links with the business sector never took the form of organic, strategic coordination, while the interests of private capital tended to take an individualized rather than a cooperative form, through linkages which, during the military regime, took the form of what F. H. Cardoso has called "bureaucratic rings".

This political weakness of the State always obliged it to flee ahead and take the line of least resistance, creating an industrial structure which was highly developed but was not self-sustaining financially or technologically. It was a form of industrialization which moved towards and became acclimatized to an extremely volatile and permanently inflationary macroeconomic environment.

It may be asserted, then, that while the Brazilian State did not repeat the performance of the Asian developmentalist States, it was not Keynesian, either, and at no time was it ever social-democratic. Nor, from the point of view of the social organization of labour, did it ever promote anything which could be called Fordism, nor did it ever allocate resources or even create adequate institutions for the functioning of a Welfare State. With respect to Keynesian-

ism, the State's liberal recourse to public deficits was never intended to seek full employment or to support consumption, but was rather the result of its own weakness and inability to sustain the growth of the modern sector of the economy without at the same time being "overwhelmed" by the most backward sectors. The same problem appeared again in the cyclical crises when the State did not have the necessary leeway for applying corrective policies. Thus, when it was overwhelmed by inflation and lost control of the monetary variables, it was obliged to give up all attempts to apply orthodox stabilization policies. In search of a way out of those crises, it promoted new fronts of expansion financed with fresh forms of indebtedness which only succeeded in temporarily putting off the final catastrophe, as we shall see below.

II

Cycles and crises

The history of Brazilian industrialization is marked by vigorous but short-lived cycles of expansion interrupted by very profound crises, nearly always of an economic and political nature.

Furthermore, this is not the first time that it has been noted that one of the most noteworthy characteristics of industrialization based on import substitution is the specific design of its economic cycle: the production curves of those industries tended to be uneven, shooting up rapidly when engaged in the substitution of imports, but slackening when growth of the market is based on an increase in domestic demand. Profits followed that same uneven pattern. Thus, industries moved rapidly from a situation of high growth and profitability to one of precocious maturity, with monopoly practices and low profitability, low levels of investment, and ageing plants and equipment (Félix, 1964, quoted in Hirschmann, 1968, p. 11).

Consequently, maintaining profits in that type of economy depended to an excessive degree on the existence of new fronts for investment in substitution, which, in turn, depended on the behaviour of two decisive factors: the structure of financing and the degree of weakness of the exchange rate.

Cyclic expansions began with these substitutive investments, but the success of those measures did not depend only on the type of financing but also on the political conditions imposed, in the sense that at the same time spaces for growth and profitability must also be opened for productive sectors which were not direct beneficiaries of the industrial policy. That imposition led to the politically conditioned expansion of credit and liquidity, not linked to the direct requirements of the substitutive wave. The adoption of policies to contain imports, together with this increase in public expenditure, created a climate of generalized euphoria in times of expansion, with high profit margins.

However, the persistence of exchange rate and financial problems rapidly and repeatedly eroded the macroeconomic scenario. The expansion of the public deficit—without a corresponding broad market for public securities—, the overvalued exchange rate and the worsening of inflationary tensions were the main causal factors, and they were also indicators of the beginning of instability in each of these cycles. At the first sign of any change in economic policy in the direction of restabilization, however, discord always arose again among the various segments of capital capable of taking political action to defend the rights

they had been guaranteed in the original pact. This capacity for reprisal is not taken into account in the models used by economists, and they therefore found it difficult to understand why the State authorities had so little control over the expansion of liquidity and macroeconomic imbalances.

On the one hand, the low level of openness of the economy had a dual effect: it guaranteed high profitability for recently installed sectors and permitted considerable autonomy in domestic monetary and exchange rate management. That autonomy only existed, however, when it was desired to apply expansive policies: it was useless or nonexistent when attempts were made to take the reverse course. On the other hand, paradoxically, the small size of the new sectors and the rapidity of the expansive cycles made them extremely dependent on public expenditure, thus making inflation an essential element for sustaining their extraordinary profits when growth slackened.

Thus, in the phases of deceleration, increased inflation converged with the unequal sharing of its redistributive effects, exchange rate and financial crises, and the fiscal contraction of the State. These "economic" phenomena coincided with the intensification of the conflict over income distribution on the part of wage-earners and the parallel increase in pressures on public expenditure by all the private interests dependent on it. It was at these times that the developmentalist State always showed its weak side *vis-à-vis* the business sector and political pressures responsible for worsening those fiscal crises.

In these circumstances, since the conservative pact vetoed every effort to permanently increase tax revenue and the level of the fiscal burden on the product; at such moments of pressure the State had no choice but to resort to indebtedness, with its obvious circular effects on inflation and other macroeconomic imbalances, which were further intensified in periods of slackening of import substitution.

In this way, the inflationary process associated with intersectoral imbalances and disproportionate increases in public expenditure in periods of economic expansion continued during periods of recession also, as a means of preserving profits in the face of the growing struggles over income distribution. The exchange rate problems, for their part, seemed to be associated with tensions in the balance of trade, during expansive phases, and with tensions in the capital account during recessions.

Generally, these periodic "fiscal" crises were overcome by emergency fiscal and/or monetary reforms, which never constituted a definitive solution to the fundamental problem linked to low tax income and the lack of an active capital market or of a private banking system in solidarity with the industrialization process. Nor were those reforms able to prevent each crisis from invariably affecting not only the conventional expenditures determining the quality of public services, but also the very investments which were indispensable for furthering the industrialization project.

During those crises, when it was necessary to make do with scarce credit and administer a currency in crisis, the government nearly always sought a solution in the same way: by imposing new "credibility" of the currency through the centralization of political power, generally in an authoritarian manner, and by "fleeing ahead" by opening new frontiers of expansion with the support of foreign resources. For this reason, the cyclic crises of this system of economic growth were always deeper and more severe when the domestic fiscal problem coincided with international financial problems capable of blocking the chances of "fleeing ahead". In these cases, there was unchecked financial speculation which coincided with political crises that led to radical reforms of the State in terms of political and administrative organization and pacts of domination.

In all of these crises, pressures for the "socialization of losses" were accompanied by violent and paradoxical attacks by the business sector on the economic intervention of the public sector, previously so well received and even considered indispensable in times of euphoria and growth. Nevertheless, the solutions adopted by different governments ended up by strengthening, in a very similar way, the "undesirable" State intervention and its association with foreign capital.

This was because, although the business sector always resisted State interventionism ideologically, it invariably yielded to it in exchange for "protection" which had the effect, at the institutional level, of what some have called "pigeon-holing" or others the "privatization" of the State and of "order". The result of this state of affairs was a system of labour relations which was extremely authoritarian, as well as being concentrative and exclusive from the point of view of wages and income distribution.

Something different, however, began to occur during the 1970s, when the government of General Geisel (1974-1979) responded to renewed exchange rate and financial difficulties, arising from the first oil crisis, with a government plan (the Second National Development Plan) which sought to complete the process of substitution of imports of basic inputs and take a definitive step forward in the development of heavy industry. To finance the plan, the government resorted once again to foreign indebtedness, with well known economic consequences: the increases in international interest rates, followed by the State's assumption of the private foreign debt, led to increases in the domestic public debt and the financial and resource erosion responsible for the new "fiscal" crisis of the 1980s. That crisis, however, as in the 1930s, coincided with an international financial crisis which, especially after the Mexican moratorium of 1982, made the recovery of growth impossible. The facts and economic consequences of that crisis are well known, but the political reasons which caused us to describe this episode as marking the end of the pact and of the developmentalist State are less familiar (Fiori, 1984).

In this sense, the term "democratic transition", in the case of Brazil, conceals various aspects of a political crisis which evolved from the exhaustion of the authoritarian regime into a situation of chronic ungovernability. History has highlighted two decisive events in this political decomposition of "bureaucratic authoritarianism" (O'Donnell, 1977; O'Donnell and Schmitter, 1988):

i) The "lack of electoral discipline" of the urban middle classes, which, beginning with the 1974 elections for the National Congress, inflicted a series of defeats on the government, obliging the military regime to adopt a strategy of "controlled openness" and successive hurried electoral and political party reforms;

ii) the "lack of trade union discipline", which, beginning with the success of the 1978 and 1979 strikes in the São Paulo automobile industry, marked the emergence of a new form of trade unionism, independent of the State, and of a new working class no longer willing to accept union and wage tutelage. At that time, workers began to question, in a manner which was at once radical and "modern", the continuation of a system of industrialization governed by a policy of "low wages".

In our judgment, however, the death-blow to the authoritarian regime came from the "lack of discipline of capital". This blow was delivered by the business sector when, beginning in 1977-1978, it definitively ceased to display solidarity with General Geisel's "Prussian" proposal to save the developmentalist project through what the business sector considered to be a firm option for "State capitalism". Contrary to what had happened in the past, this time there was an outright veto of the global strategy itself which had been followed (though not in a planned fashion) since the 1930s.

From that time onwards, the Brazilian business sector was converted to the cause of "democratization" and came to be ever more radically opposed to the old developmentalist objectives. The rules of the old conservative agreement were called into question, thus destroying the triple economic and political support for Brazilian industrialization. Although the State and foreign capital began to "desert" for economic reasons as from 1982, the first group to abandon the pact was the national business sector, which did so for eminently ideological reasons. This is a decisive element for understanding the ungovernability of the 1980s, and it is even more important for understanding the roots of this new organic and terminal crisis of the developmentalist State.

III

Unknown quantities in the present situation

The facts speak for themselves. During the 1980s, there were eight monetary stabilization plans in Brazil, four different currencies, 11 different indexes for calculating inflation, five price and wage freezes,

14 wage policies, 18 changes in the exchange regulations, 54 modifications in the price control rules, 21 proposals for external debt negotiations, and 19 government decrees on fiscal austerity. And it is

symptomatic that this political and economic calamity began precisely in 1979, when the Finance Minister of the Figueiredo government (1979-1985), Delfim Netto, changed the value of the currency and of wages through pre-established monetary correction, a devaluation of the exchange rate, control of interest rates and an increase in the levels of wage indexing.

All this occurred simultaneously with a change in United States monetary policy which set off a general depression which was to last until the mid-1980s, thus causing a sharp increase in the external debt of debtor countries and closing the door to a new Brazilian attempt to "flee ahead" on the basis of fresh foreign indebtedness. It also occurred at the same time that the Brazilian business sector and working class were questioning the basic rules which had governed their political relations with the developmentalist State. Since then, the critical manifestations of this state of affairs have increased ever more rapidly and the loss of power on the part of the State has been reflected still more clearly in the vacillation and impotence of its economic policy in the face of rapid inflation and the persistence of economic stagnation.

It was in this context, and especially in the second half of the 1980s, that the conservative political elites and the main leaders of the Brazilian business sector enthusiastically adhered to what John Williamson (1990) called the "Washington consensus": an orthodox programme of monetary stabilization, accompanied by a "structural" reform package designed to deregulate economic activity, privatize the State-owned productive sector and open up domestic economies to international competition. These were ideas which had adorned business sector rhetoric during the recessive cycles, but which it had never been possible to put into practice because of the political veto of the factions which could have been most directly affected by such stabilization.

Today, however, this new liberal consensus is much more vigorous than in the past. The problem lies in the fact that these old-new ideas are no longer able to solve, either analytically or prophylactically, the difficulties and impasses faced by the Brazilian economy and society, due precisely to the contradictory success of the industrialization policy which the national business sector criticizes today.

These matters indicate that the current paralysis of the Brazilian State is not due to the weakness and

fragility of its economy, but rather to the fact of having completed a heavy industrialization programme on a scale no longer readily adaptable – except at enormous economic and social cost – to the changes which have taken place in the international context.

From a strictly economic point of view, this is the great problem: the Brazilian economy, unlike smaller economies, does not admit of viable solutions through the export sector, and since it does not have really meaningful forms of complementarity with any regional trade bloc, the only way out is for the country to pursue a complex course of thoroughgoing productive and technological restructuring.

However, for such restructuring to be viable, the strategy to be adopted would have to be the opposite to that which the Brazilian intellectual, political and business sector elites are proclaiming so enthusiastically, because what is needed is a national State capable of assuming strategic command of an effort to construct growth scenarios and trajectories.

The State can no longer keep on using the old formula of "fleeing ahead" and "low wages". Overcoming the current crisis requires the preparation of an appropriate strategy and presupposes a complete realignment of the old commitments between the State, private capital and the workers. This is the true essence of the reform of the State which is needed today: a reform much more profound than that undertaken in the 1930s, and which has actually already begun with the re-democratization of political and labour union institutions, but which will still have to face many obstacles in the future, especially because, in contrast with neo-liberal thinking, this State must be "strong", without being over-large and authoritarian, as was the developmentalist State.

Consequently, in contrast with neo-liberal convictions, the transformations called for today must seek a new and decisive role for the State, which should be made the central pillar of business sector strategies for the conquest of new markets, as well as being an active promoter of policies designed to further social welfare and retraining of the work force. This would be a State which is at once strong, flexible, autonomous and democratic, with the responsibility of formulating and strategically articulating a new style of development compatible with the promotion of social and political citizenship for the sectors of the population which have been marginalized to date.

Quite a problem! This project presupposes the adoption of a new pact or commitment radically different from that which arose in the 1930s, and in

these first years of the 1990s this still seems a challenge comparable with squaring the circle.

(Translated from Portuguese)

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