DEVELOPMENT and CRISIS in BRAZIL, 1930-1983
Luiz Carlos Bresser-Pereira
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The Viability of Capitalist Development

Development and crisis were the two key-words of the Brazilian historical process between 1930 and 1968. Despite intermittent political and economic crises, throughout the first 31 years the emphasis was on development. In this period Brazilians witnessed what one might be tempted to call their industrial revolution, but today it has become clear that these years constituted only the first great phase of this revolution. In 1962 began the period here called the Brazilian crisis, characterized by permanent economic, social, and political crisis that worsens from time to time, later returning to its natural state of chronic crisis.

Now the question is, Is capitalist development viable for Brazil? Can we continue our economic growth and overcome the inhuman conditions of our underdevelopment within the limits of a basically capitalist society?

This question is important because we live under a capitalist system that, at least in the intermediate term, was consolidated by the Revolution of 1964, following the industrial development of the 1930s, 1940s, and 1950s. Though it was led by the traditional middle class, and particularly by the military, rather than by the capitalist class, this revolution ended up adopting a basically capitalist ideology. The fact that the traditional middle class in command of the Revolution of 1964 adopted a capitalist ideology can be explained by the very nature of the middle class and its receptivity to ideology. It has no ideology of its own. Aside from idealism (which is more of a philosophical characteristic, stemming from this class's special kind of insertion in the concrete reality) the traditional middle class is generally alienated from the productive process, and is defined by conservatism. Thus it is not surprising that when maintaining security required an alliance with capitalism, this was the path it chose.

The left movement, which had begun to constitute an autonomous force only in the 1960s, suffered a violent blow with the Revolution of 1964. Its immaturity led it to expose itself too much, when it was still too weak and disorganized to stand up to groups of the right and center. As a result, the main effect of the revolution was to consolidate the capitalist system in Brazil, in the intermediate term. The possibilities for the left to regain any sort of power are very slim in Brazil in the second half of the 1960s. Conditions for a socialist revolution are even more remote. Both economic and military power are too well organized to permit any severe breach in the existing institutional framework. A class of entrepreneurs appears, which, though not very active politically, has strong economic power. As we saw in Chapter 3, the middle class and particularly the new middle class show a great development, and end up assuming power with their technocrats and bureaucrats, who soon show their conservative nature. Finally, within the international context Brazil is located in the United States' sphere of influence. This superpower, with its typically imperialist perspective, has since the Cuban experience made it increasingly clear that any left revolution in Latin America would invite American intervention. (History has shown that it is sufficient to be a great power to be imperialist.) The case of the Dominican Republic, which was hardly a left revolution, showed that this is not a position backed up merely by words. In light of the economic power of the entrepreneurial class, their numbers, their conservatism, the military and political power of the middle class, and the pressure from North America, it is difficult to imagine that any other alternative to the capitalist one would have any chance to dominate in Brazil, at least in the intermediate term.

Industrial Revolution and False Analogy

The degree of industrial development that took place in Brazil from 1930 to 1961 was so great that it has led many observers to believe that the Brazilian industrial revolution was complete.

In fact, during this period, Brazil saw a vast diversified and integrated industrial park established within its borders. Consumer industries, making both durable consumer goods and lighter products were installed. In 1961, the percentage of imported consumer goods was minimal. Basic industries—ironworks, aluminum, copper, chemicals, lye—were also largely established. Though there was still work to be done in these areas, especially in the industrialization of chemicals, the most important part had been accomplished, making use of the subproducts of oil refineries. This was also true of the capital goods industry. It saw an intensive development in the 1950s, so that at the end of the decade, two-thirds of the equipment for national industry was being domestically produced.

These facts might lead one to the conclusion that Brazil had in fact completed its industrial revolution. I came to believe this and put it down on paper. All indications pointed to the fact that the nation had reached a stage in which investment and reinvestment had become an integral part of the economic system itself; investments were stimulated by the profit motive and also were the condition for obtaining new profits, so that development had become automatic and necessary. However, in affirming these facts, we are making an analogy to the development of developed countries. Today we see that this is a false analogy, based on facts that do not directly correspond to our situation.

In reality, when the three nations that first underwent industrial revolutions—England, France, and the United States—had reached a degree of industrial development more or less comparable to that of Brazil in 1961, they came to have a self-sustained development. This analogy leads to the conclusion that the Brazil of 1961 (despite eventual crises it might suffer) roughly corresponds to Europe at the end of the Industrial Revolution, and that both these social systems then entered a period of self-sustained development.

However, this analogy omits an elementary but fundamental fact. Brazil's industrial development took place under very different conditions than that of England, the United States, and France. There are three factors that determine these basic differences:

1. Brazilian industrial development occurred through import substitution, whereas this process did not define the Industrial Revolution of today's developed nations. On the contrary, they participated in the international market of manufactured goods as exporters.

2. The industrial development of the developed countries was realized by the integration of a series of techniques that were being perfected at the time, adapted to the economic needs of each country. On the contrary, Brazil utilizes imported technology that is often ill-suited to our needs and provokes serious distortions in our economy, particularly in terms of unemployment.

3. Finally, Brazil's industrial development takes place under the supervision of an imperialist superpower that, like all superpowers, would like to orient and control the country's political and economic development. The distortions that these factors produce in both the economy and the national society are so serious that unless they are overcome, Brazil's industrial development will not be definitively consolidated. It will present that appearance, yet without having reached a phase that can legitimately be considered self-sustained, that is,

automatic and necessary. Consequently, one must conclude that Brazil has not yet completed its industrial revolution.

The Definitive Proof: Exportation of Manufactured Goods

The distortions caused by the process of import substitution suggest the first definitive proof that the Brazilian economy will have to face in order to overcome these distortions. I am referring to the exportation of manufactured goods. One of the essential conditions for considering Brazil's industrial development as self-sustained is that it has come to have an increasing participation in the international commerce in manufactured products.

There are two reasons to support this thesis. First, the opportunities for import substitution and reduction of the import coefficient have basically been exhausted. Thus, Brazil's only alternative is to increase its national product, that is, increase its exports concomitantly and proportionally. If it is no longer possible to reduce the import coefficient (that is, the percentage of imports in the national product), when the national product increases, industry's need to import machines and raw material will also increase. And soon, the domestically oriented development we had experienced until recently will no longer be possible. Increased importations are imposed upon the economy.

Second, we have already seen that we cannot increase our total exports by increasing the exportation of primary products, for a number of reasons: low income-elasticity of demand for agricultural products, increasing competition among the underdeveloped countries, use of artificial substitutes by the developed countries, unstable prices for primary products, etc. Thus, we are forced to shift our emphasis to the exportation of manufactured goods.

In 1966, exports of manufactured goods, which had been showing a gradual increase, represented 5.9 percent of Brazil's total exports, compared with 6.8 percent in 1965. In absolute terms, this represented a decrease from $109.5 to $104.4 million.[1] In 1967, exports began to recover.

We can consider that manufactured products represent 6 percent of Brazil's exports. If we planned for a 6 percent growth rate for the national product (which would be the minimum acceptable) this would mean that exports would also have to increase 6 percent in order for the ratio of imports to remain constant. If we wanted this increase to be based on the increase of our manufactured exports alone, we would have to increase our exportation of these products by 100 percent in the first year. In the following years, this percentage could be reduced by 50 percent, 33 percent, and so on until the theoretical 6 percent limit was reached, when our exports would be exclusively of manufactured goods. Now it is obvious that such rapid growth is impossible. Therefore, while directing our efforts toward the increased exportation of manufactured goods, we would also have to try to increase the exportation of primary products. The difficulties implicit in these two tasks are enormous, and again pose the question of whether capitalist development is viable for Brazil.

Because both these tasks are essential, the Brazilian economy can meet this challenge only to the extent that it effectively exports manufactured goods. Eventual favorable conditions in the market, external to the Brazilian economy itself, could cause a new boom in the exportation of raw materials. But such a boom would not be any proof of the capability of the Brazilian economy, because the impulse would be the result of outside conditions. Brazil would continue to be an underdeveloped country, exporter of primary products, at the mercy of the typical fluctuations in the international market for these products. It would be subject to the competition of other producers of the same product utilizing cheap labor, as well as to competition from producers of synthetic subsitutes in the industrialized countries. Even more serious is the fact that in the production of prime materials, the introduction of advanced production techniques is not called for. As a result, there is no need to train specialized workers, productivity continues to be low, and underdevelopment continues to be a permanent phenomenon on the Brazilian economic scene. Thus we can meet this great challenge only to the extent that Brazil participates significantly in the international commerce of manufactured goods and its role is acknowledged by the industrialized nations.

Naturally we cannot expect to compete in every industrial sector. Rather, enterprises should make choices as to the sectors where their major efforts should be directed and receive incentives from the government. There are two criteria for the choice of these sectors: the existence of cheap national prime materials (as in the classic case of instant coffee); and a lower ratio of capital to labor. The reasons for this second criterion are obvious. Since underdeveloped countries have an abundant and cheap labor force, according to the theory of economic development, they should concentrate their industrial efforts in labor-intensive sectors rather than capital-intensive ones. While it is obvious that there are a series of qualifications that should be made to this statement, they are not appropriate at this moment, nor do they alter our basic argument.

However, it is important to point out that there are two types of labor-intensive industries. The first is almost craftsmanship, such as the clothing industry, leatherwork, and furniture making. When labor-intensive industries are mentioned, one usually thinks only of these types of industries, characterized not only by a low capital-labor relationship but also by a low level of technological development. These kinds of manufactured products should definitely continue to be exported. Yet to remain only with this type of product is another way of expressing a colonial inferiority complex, and more seriously, of remaining underdeveloped while at the same time exporting manufactured goods.

There is another kind of industry, also labor-intensive, but requiring a high level of technological development. The example *par excellence* of this type of industry is the production of electronic or mechanical equipment by special order. Because it is by special order, such production cannot be standardized and consequently cannot be highly mechanized, much less automated. Each product calls for a special project. Only some of the pieces can be standardized, whereas others have to be specially made and individually assembled. Thus the relationship of capital to labor in this kind of industry has to be low. However, the manual labor is highly specialized. It is at this point that the antinationalists with their latent inferiority complexes will ask, But are we capable of developing a specialized labor force equal to the task? I am certain that we are. It is much easier and cheaper for underdeveloped countries to import technology, pay royalties, contract foreign technical experts, and send scholarship students abroad to study than to import equipment.

It is these sectors, either with easy access to prime materials and/or with a low capital-labor relationship (which does not mean a low level of technology) that should be stimulated to produce for exportation. At any rate, once the more favorable sectors are chosen, it is essential to lower production costs, that is to say, to increase productivity decisively so that we are able to compete in the international market. However, at first we will have to keep our costs and prices lower than those of our richer competitors (as occurred in the case of Japan), because we have neither an established name nor a tradition in the international commerce in these products.

Once this decisive point in the Brazilian economy has been reached, Brazil will have finished its industrial revolution and reached the stage of self-sustained development, and will consequently have shifted the emphasis of its exportation from primary to manufactured goods. This change would go together with an aggressive commercial policy applying modern principles of marketing, along with direct government intervention to stimulate certain exports. These measures would result in a decisive increase in industrial output and consequently in lower costs.

Three Possible Capitalist Ideologies

At the end of the 1960s, as the economic crisis is being overcome, I perceive three possible ideologies for Brazil. By "possible" I mean that they are ideologies that could be put in practice, be defended by their supporters, and eventually become the government ideology, to the extent that they become politically victorious. These three possible ideologies are classic neoliberalism, technocratic-military interventionist liberalism, and developmentalist nationalism.

Classic neoliberalism. Classic neoliberalism is bourgeois ideology *par excellence.* It comes close to the idea of *laissez-faire*, but cannot be equated with it for the simple reason that pure liberalism is dead and buried today. It favors the least possible state intervention in the economy, and would like basically to leave the responsibility as well as the main fruits of development in the hands of the capitalist class. In the underdeveloped countries it is a systematically colonialist ideology to the extent that it has no faith in the national capitalist class's ability to develop the nation and thus eventually appeals for foreign assistance. It is an ideology that defends the democratic order, individual liberties, and the representative system, but its proponents are always ready to abandon or limit these ideas when they feel that the system is endangered, as occurred in 1964. This ideology presupposes that the nation will basically be controlled by two groups: the capitalist class, which holds the economic power and will occupy key positions in the government determining economic policy; and the professional politicians, who function not merely as representatives of the capitalist class, as some hasty observers would like to believe, but also as participants in a relatively autonomous social status group, who defend their private interests. Their role is to serve as intermediaries among the state, the capitalist class, the middle class, and the population in general, in that order of priority.

This is the ideology that is probably supported by the great majority of the Brazilian entrepreneurial class, and also by a significant part of the middle class. I do not find this ideology workable for Brazil's economic development for three fundamental reasons. It is a colonialist ideology, and I believe that Brazil's development can be realized only through a well-defined national project. It is liberal, minimizing the role of the state, and I affirm that currently there is no economic development without state intervention, that the problems that an underdeveloped country has to face today are so large that only careful planning and deliberate and intelligent state intervention in the economy can lead to development. Finally, it is strictly capitalist, the ideology of a small group only that seeks the advantages of development for itself alone. This may have been politically acceptable in the nineteenth century, but in the twentieth, and particularly in Brazil, it no longer is. In addition, the effects of the concentration of income implicit in this ideology are disastrous.

Technocratic-military interventionist liberalism. Technocratic-military interventionist liberalism is the ideology that came to dominate Brazil in the years 1964 to 1967. This phenomenon was examined in the last chapter, which looked at the socioeconomic background of the military officers and technocrats who came to power with the Revolution of 1964. This ideology, as the name I have chosen indicates, is based on a contradiction: It is both interventionist and liberal. Really, it is a whole tangle of contradictions, to the extent that technocrats and military men dominate it. As members of the traditional middle class, detached from the productive process and receiving no benefits from the industrial development that took place between 1930 and 1961, they are characterized politically by idealism and alienation from reality. They seek to change the world by laws and decrees and moralism, by personalizing problems and attributing personal or even collective responsibility. Their ideology has a strong moral content, rather than a focus on the existing structures. They are characterized by conservatism, with policies that appear to be substantial reforms, but in fact are only superficial ones.

In addition to these traits, technocratic-military interventionist liberalism is also a capitalist ideology. However, it is a capitalist ideology whose authors and principal defenders are not capitalist entrepreneurs (who were excluded from power by the Revolution of 1964), but rather military men and technocrats. For them, capitalism is not an internalized phenomenon, an organic part of their lives, but rather a label to be placed on their opposition to communism, which frightens them because they are conservatives. Their capitalism is thus not very authentic but rather the fruit of contradictions. They call themselves capitalists yet are averse to private profits they do not share in. They defend liberalism, yet have established a rigid system to control enterprises, often including strong policing measures that Brazil has never known until recently. All the documents state that they intend to strengthen the private sector rather than the public, yet they nationalize foreign hydroelectric corporations and progressively increase the state's participation in the economy.[2]

Developmentalist Nationalism. There is still a third possible capitalist ideology for Brazil. It is what I shall call developmentalist nationalism, since its fundamental characteristics are that it is nationalist and that it sets national development as its most important objective. Nationalism, defined by the belief in a country's potential for self-development, is opposed to colonialism. It affirms that economic progress occurs only to the extent that the nation itself sets this progress up as its goal, makes the necessary sacrifices to attain it, and is fully aware that its success will depend upon its own efforts in this direction. Barbosa Lima Sobrinho well expresses another dimension of this concept: "The substance of nationalism is not antagonism of interests or ideas."[3] The idea of conflict is not essential to patriotism, yet it is impossible to speak of nationalism without expressing an explicit or implicit conflict of interests. Thus antagonism and a belief in Brazil's potential, in its values as a nation in the process of formation—these are the essential characteristics of nationalism.

This antagonism can take many forms, depending on the epoch and the situation in which determined nationalist attitudes or ideologies appear. In Brazil today, this antagonism has its origin in the fact that the national interests of Brazil as an underdeveloped country are not in agreement with those of the industrialized countries and that the interests of the capitalist groups in the developed countries (though we will qualify this below) are not necessarily the same as those of the Brazilian people. In fact, the interests of developed countries and their enterprises are often clearly in conflict with Brazil's interests. This is especially true in relation to the United States, which, as an imperialist superpower directly dominating the Latin American countries, is the source of the greatest conflicts of interests.

An acknowledgement of this conflict is essential to the self-definition of a nationalist in Brazil today. But such an acknowledgement does not necessarily mean that one must see conflict in all areas, point out the contradictions in each and every sector. In fact, it was this kind of attitude that led nationalism as an ideology to a phase of decline in Brazil. Chapter 4 has shown how at the end of the 1950s and beginning of the 1960s, nationalism ceased to attract the Brazilian capitalist class. Consequently, it also ceased to be the fragile yet essential link between the left and the entrepreneurs, who had tried to form a united front around the nationalist ideology in the 1950s.

When this united front was no longer viable, the nationalist ideology was monopolized by the left. It is clear and understandable that the left radicalized nationalism, mixing up its economic arguments with political ones. As a result, the economic arguments favoring nationalism became weak and imprecise. And nationalism as an ideology entered a period of decline, to the extent that working class groups, the middle class, and, naturally, the capitalist class were not predominantly tied to the left.

Foreign capital was a focal point in this debate. In general, the nationalist position was radically opposed to foreign capital. However, its theoretical arguments were based on insufficient economic analysis.

It is true that there were and are enormous series of isolated cases of foreign enterprises (especially in public services) whose actions are highly antinationalist. Barbosa Lima Sobrinho's work on the activities of the electric companies is a classic in this area.[4] But when the left tried to prove that foreign investments, or at least the majority of them, were disadvantageous for Brazil, its nationalist economic theory showed its marked limitations, and nationalism became demoralized.

In reality, a position that opposes all foreign investment is not economically feasible in Brazil. Doubtless there are political arguments that could support this position. If our goal is to establish socialism within a relatively short time, then in fact it makes little sense to permit the entry of foreign capital into Brazil. However, apart from these political motives, in economic terms it is difficult to deny the important role that foreign capital plays. If one accepts the argument that in underdeveloped countries the great problem is the lack of investment capital; if one admits that investment, especially in industry, has multiple effects, producing revenue not only directly for the foreign proprietors of capital, but also for wage workers, the government, and other enterprises; if one concedes the great importance of know-how in industrial development, then it is hard to make firm economic arguments against foreign capital.

These arguments do, however, exist, and suggest a nationalist policy of selective rigor with respect to foreign investment and controls on the activities of foreign enterprises (such as regulation of the remittance of profits, and an obligatory process for gradual nationalization). This position has a solid theoretical basis. The explanation of this theoretical basis for the selection of foreign capital deserves a chapter of its own. However, in a quick summary, the argument is as follows. Really the claim that the underdeveloped countries' greatest problem is their lack of capital is only a half-truth. There is a lack of capital in some sectors where the underdeveloped country does not have appropriate technology or the understanding of that technology, and where the necessary investments would be very high. However, in a great number of other sectors, there is sufficient capital and often extra capital. Enterprises function with idle capacity. Entrepreneurs and isolated capitalists don't know what to do with their profits, rents, and interest, and end up consuming them, sending them abroad, or investing them unproductively and increasing idle capacity.

Yet this is absurd as an economic analysis, some would say. And in fact it is, if one assumes an integrated market with highly developed capital, able to channel savings to investors, with perfectly mobile production factors and, especially, capital; if one assumes the existence of essentially rational behavior befitting *homo economicus*. It is impossible to imagine that within this same economy there could exist isolated sectors, some with abundant capital and some lacking capital.

In Brazil, however, this is definitely not the sort of economy that exists; and in fact, in certain sectors there is an effective excess of capital. Thus it makes no sense to allow foreign capital to enter these sectors, and in those where it has already penetrated, or in new sectors, it should be carefully controlled. Indiscriminate opposition to multinationals makes no sense, but neither, in a country like Brazil, does the inverse attitude of welcoming them in any circumstances.