From 1930 to 1960, Brazil adopted a pattern of economic policy marked by strong state intervention, high levels of protectionism, disregard of exports and a permissive treatment of inflation. These policies distorted the model of industrialisation and had a negative impact on the prospects for economic development. This article employs a historical institutionalist approach to investigate how the international context, the ideology of the policymakers, the role of the technocrats and the pressures of various social groups, especially the industrialists, influenced decisions on economic policy, contributing to the consolidation of the pattern described above.

Keywords: Brazil, economic policy, import substitution industrialisation, historical institutionalism.

The objective of this article is to employ historical institutionalism in order to understand the pattern of economic policy adopted in Brazil in the period 1930–1960. In response to the international crisis of the 1930s, a project of industrialisation based on import substitution and marked by strong state intervention was defined, pursued with vigour after 1937 and consolidated in the 1950s. Among the characteristics of this model were a high degree of protectionism, state control of many prices, relegation of exports and agriculture to a secondary level of priority and a lax attitude towards inflation.

The analytical framework of historical institutionalism was first employed by Hall (1986) in his comparative analysis of Britain and France. Hall, refusing the idea that economic policy is simply a response to economic problems, developed a systematic treatment of the political elements which, intertwined with economic factors, led countries to follow a certain path of development. Although recognising that factors...
such as political culture, the degree of autonomy of the state and the power of social
groups play an important role, Hall argued that these factors are mediated by the
institutional factors present in every society. Regarding the influence of social groups,
for example, Hall, while not ignoring the class interests at stake, emphasised that their
capacity to influence a specific policy is deeply influenced by the institutional factors
that characterise the organisation of the state, the organisation of social groups and the
relations between them (Hall, 1986: 15).

One of Hall’s main objectives was to investigate why, in the face of clear signs of
industrial decline, British governments failed, in the post-war period, to adopt a
consistent industrial policy. He found the answer in the British position in the inter-
national economic system and in the institutional factors that characterised the orga-
nisation of the state and the social groups. First, pressure from financial interests, fruit
of Britain’s role as an international financial centre, explained the government’s reluc-
tance to devalue the pound. In this sense, the difference in interests between industry
and finance prevented unified support for policies to upgrade the industrial structure.
Second, business associations were strong but very fragmented, thus hindering the
achievement of a more wide-ranging position dealing with national problems.
Accordingly, industrialists tended to view the actions of the government with suspicion
and to resist interference in their activities. Third, the labour movement, although
strong, lacked a central confederation with the mechanisms to compel members to
follow its orientation, while the local trade-unions were resistant to any form of state
intervention that affected their autonomy.

Regarding the organisation of the state apparatus, it was marked by the independ-
ence of the Bank of England and by the power of the Treasury – an organ with little
expertise in and commitment to developing industry. In addition, the re-organisation
of the state in the post-war period did not produce an organ with enough capacity to
undertake a programme of industrial adjustment. And finally, the political parties’ high
dependence on social groups reduced their autonomy and willingness to promote the
necessary reforms. In brief, these institutional factors tied the state down: besides the
political culture, which was in itself very resistant to state intervention, the organisa-
tion of the state, of the social groups and of the political system all had a key impact on
the refusal to undertake reforms.

My intention, by using this framework, is to show how different factors combined
to consolidate a pattern of policymaking in Brazil, recognising that the Brazilian case
illustrates important points about Latin America and other developing countries. In
this sense, it is important to emphasise that, in response to the international crisis of the
1930s, many developing countries reacted in a very similar way. As Cox (1987: 236)
stresses, the crisis of the 1930s brought about the emergence of ‘neo-mercantilist
states’, in which the lack of a hegemonic social group made the state ‘the only basis
for the project of an indigenously inspired, populist-flavoured, autonomous direction
to national development’. Although a key agent in the new development process, the
state was not able to reshape society and the process was marked by friction between
several state initiatives and various social groups.

The similarity in the experiences of many countries is very good evidence for the
relevance of the form of insertion into the international economy in accounting for
different paths of national development. This is an important point emphasised by Cardoso and Faletto (1970), who see in the configuration of social forces, shaped by a particular position in the world order, a key factor in understanding the constraints on economic development. Although dependence is manifested in many ways, including the lack of technological capacity, the weakness of the industrial bourgeoisie and the high participation of foreign capital, Cardoso and Faletto show that one key dimension is political, related to the set of forces which, reinforced by previous patterns of international insertion, constitute significant constraints on the shaping of a new economic model.

Brazil provides a very good case study for understanding the challenges of economic development in Latin American and other developing countries. Although many of its characteristics were shared by other Latin American countries, the existence of significant differences highlighted the influence of certain institutional factors, such as the characteristics of the state and the role of political culture. Second, Brazil significantly advanced its process of industrialisation, constituting a successful example of ‘state led industrialisation’. Nevertheless, the difficulties were also considerable, being, in great part, related to limits in state capacity, which prevented the replication of the positive results obtained by the Developmental States in East Asia (Guimarães, 2003). In this sense, one important facet of these limits is manifested in the characteristics of the policymaking process, constituting imbalances that critically constrained the achievements of the industrialisation model.

The article does not aim to provide an original treatment of how the factors discussed affected policymaking in Brazil. Diniz (1978) and Leopoldi (2000) have already shown the influence of the business class on the pattern of policymaking. Similarly, Leff (1977), Sikkink (1991) and Bielschowsky (1988) have emphasised the role of technocrats and ideas, while many articles about economic policy have located the immediate economic constraints. Nevertheless, to date there has been no attempt to combine all of these factors systematically. Thorp (1992) undertakes an interesting analysis of economic policy in Latin America after the Second World War, but she does not embark on a detailed evaluation of the influence of particular agents, such as industrialists and technocrats. In brief, my objective is to show how the interaction of the different factors led to the configuration of a specific pattern of economic policy, which is critical to understanding the limits of the import substitution industrialisation process. In order to do so, the article applies Peter Hall’s historical institutionalism approach, showing how the combination of economic and political factors led to the emergence of a specific pattern of economic policy.

Distortions in the Pattern of Economic Policymaking

Before considering the pattern in detail and presenting its determinants, it is worth making some observations about the analytical validity of defining a pattern of economic policy. This is necessary because individual governments were marked by important differences, including the adoption of certain policies that diverged from the main lines identified in the pattern. For example, although at certain moments
governments demonstrated their intention to curb inflation, it has to be stressed that this resolve typically did not last and that an expansionist economic policy generally prevailed: other priorities led governments to increase expenditure, with consequently high inflation rates, during most of the period. In brief, although many results were not the outcome of deliberate government policy, the policies did assume certain general characteristics, making possible the identification of a general pattern of economic policy.

The pattern of economic policy was characterised by several distortions, properly emphasised by Eugenio Gudin, one of the earliest professional economists in Brazil, and a prominent liberal, who strongly criticised a system of import licences which, according to him, forbade the importation of any goods that could compete with national industry. Gudin maintained that the high levels of protectionism practically eliminated the risks of investment, benefiting specific interest groups at the expense of the large majority of consumers. His criticisms were also directed against the high rates of inflation, which discouraged savings and public investments and distorted the system of prices. Finally, Gudin emphasised how the development model completely neglected agriculture, an activity in which the country had natural advantages and which had a key role to play in increasing exports and relieving the pressures on the balance of payments (Diniz, 1978: 207–208).

These distortions are widely emphasised by analyses centred on the difficulties of development in Latin America (Balassa, 1982). They stress that high tariffs produced an inefficient industry, unable to conquer foreign markets. Similarly, the overvalued exchange rate inhibited exports, both in the agricultural sector and in new industries. Consequently, the capacity for industrial growth became limited to the expansion of the domestic market, while poor export performance provoked constant problems in the balance of payments. Furthermore, high inflation was blamed for producing distortions and hindering the efficient allocation of resources in the economy. These characteristics trapped Latin American countries in a vicious circle, marked by inefficient industry, high inflation, poor export performance, balance-of-payments problems and constraints on economic growth.

These distortions are often contrasted with the virtues of the export-led industrialisation adopted in East Asia. In Korea and Taiwan, where more realistic exchange rates were adopted and less permissiveness with inflation shown, a virtuous circle emerged, characterised by high productivity, export growth, expansion in the market, rapid economic growth and an increase in real wages. In these countries, the conquest of foreign markets increased the markets available for industrial development and the country’s capacity to import. Likewise, control of inflation and productivity growth produced an increase in real wages and a reduction in social inequalities.¹

In view of the distortions emphasised above, which negatively affected Brazil’s capacity for economic development, it is very important to understand how this pattern

¹ It is necessary to emphasise that differences in economic policy were not the only important difference between the two East Asian countries and Latin America. Korea and Taiwan also had very strong states and a favourable geopolitical position, variables that strongly improved their chances of success (Guimarães, 2003).
of economic policy came to be adopted. These factors are also important in understanding why, in the face of mounting evidence of economic difficulties, corrective policies were not immediately adopted.

The Brazilian Response in the 1930s

The impact of the crisis of 1930 was felt throughout Latin America, undermining previous faith in the agro-export model. Nevertheless, the countries’ responses varied significantly. In Colombia, for example, the weakness of the urban middle classes and the hegemonic power of the export sector led to policies that did not significantly affect the structure of the economy. In Argentina, the agrarian elites, which controlled power, permitted a partial process of industrialisation, mainly in sectors that processed raw materials available domestically. Manufacturing, nevertheless, suffered following the signing of an international treaty which, in order to guarantee export markets, opened the domestic market to the import of manufactured goods (Cardoso and Faletto, 1970: 70–73).

In Brazil, by contrast, the process led to significant changes both in the role and organisation of the state and in the model of economic development. The regime installed in 1930 promoted centralisation and the strengthening of the state, preparing it for a very active role in addressing national problems. Organs were created to intervene in and regulate the economy, increasing the state's capacity to design and execute economic policy and to stimulate economic development. Furthermore, parts of the public service were modernised and became subject to meritocratic criteria of selection and promotion (Draibe, 1985).

Second, another central change was the adoption of a deliberate strategy to promote industrialisation. Before 1930, economic policy had been mainly directed towards promoting the interests of the coffee bourgeoisie and industrial development took place only on the fringes of the coffee sector. Although the policies adopted in the first half of the 1930s were marked by a certain ambivalence, the direction taken after 1937 did not leave any room for doubt about the government's intention to promote industrialisation. The government created the Carteira de Crédito Agrícola e Industrial do Banco do Brasil (CREAI) to provide long-term loans for industrial projects, and a range of public enterprises was created in the areas of steel, electrical energy, heavy chemicals, mining and automobile engines (Draibe, 1985: 125).

It is important to understand why the Brazilian response took the form indicated above. Apart from the effects of the international crisis, three main factors must be taken into consideration: the balance between the social forces, the characteristics of the political culture and the ideology of the political elite. First, the divergences between the rural aristocracies of different regions and different economic sectors, together with the influence of the military and the strengthening of the industrial class, produced a balance of power that increased the autonomous capacity of the political elite to shape a new economic model. This balance of power is important in explaining why the agrarian aristocracy was not able to control power and implement small changes in the development model, as happened in other countries.
Second, the Brazilian response was deeply influenced by the previous role assumed by the state and by the characteristics of the political culture. The Brazilian state in the nineteenth century was more interventionist than any other Latin American state, and its role was further increased by the demands of the coffee bourgeoisie to regulate the supply of the product. This intense state influence was supported by a political culture which, inherited from the mercantilist Portuguese tradition, viewed state intervention as the best way to address national interests. Thus, in response to the problems and contradictions of the First Republic (1889–1930), when the adoption of a decentralised federalist arrangement allowed the rural oligarchies to capture the state and use it to pursue their immediate interests, the opposition defended the return of a strong state as the only way to pursue the necessities of national development. In this sense, the previous role of the state and the characteristics of the political culture are key to understanding the directions that marked the re-organisation of the state and the shaping of the economic model after 1930 (Faoro, 1998; Guimarães, 2003).

Therefore, the balance between the social forces and the characteristics of the political culture continued to increase the autonomy of the political elite and the influence of its ideology on the definition of the economic model to be adopted. This ideology, which was much influenced by positivism, favoured the ‘search for technical solutions’ to political issues, the adoption of a corporatist pattern of interest representation and the promotion of industrialisation as the most suitable strategy for national development. Nevertheless, it is important not to disregard the role of the social forces present in the power coalition. The revolution of 1930 was not a radical rupture, and the new regime was marked by the consolidation of a very broad and heterogeneous political coalition. In this sense, as Draibe (1985) emphasises, if the disputes between the classes gave autonomy to the state, the composition and relative power of those classes established the limits of this autonomy and determined also the possible directions to be imposed on economic policy.2

In conclusion, by the end of the 1930s, important characteristics of the development model had been consolidated. The state substantially increased its role in economic activity, and industrialisation was promoted as the most suitable strategy for achieving national development. Other important characteristics, such as the creation of corporative councils that gave business groups privileged channels of access to policymaking, had a significant influence in the following decades. In brief, key transformations introduced in the 1930s were maintained and gradually became institutionalised in the following decades, eventually coming to constitute crucial features of the model of industrialisation.

Common Factors in Latin American Economic Policy in the Post-War Period

Before emphasising certain specifics of the Brazilian process, it is important to explore some characteristics shared by other Latin American countries. These points in

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2 As examples, those groups limited the capacity of the state to increase tax and vetoed the creation of a central planning organ. The adoption of more radical reforms, such as an agrarian reform, was out of the question.
common indicate the influence of geopolitical factors and also the impact of a country’s position in the world economic system. In the immediate post-war period, the Latin American nations demonstrated strong support for the emergence of a liberal economic order, marked by low tariffs and free trade. The International Conference of Rye, in November 1944, supported a reduction in tariffs, the elimination of quotas and an end to discriminatory practices (Diniz, 1978: 214). Similarly, in 1945, the Inter-American Conference prescribed a reduction in tariffs and the adoption of policies favourable to foreign capital, while nationalist practices and the creation of public enterprises were condemned (Thorp, 1992: 190). Nevertheless, a few years later, liberalism was abandoned and protectionism was again on the agenda. This common reaction indicated a widespread frustration with US foreign policy, which was marked by the lack of any programme of economic support for the region. Accordingly, protectionist measures were motivated by balance-of-payments problems, which were not addressed by the institutions of the new world order created at Bretton Woods.

Another interesting similarity was the decision of many Latin American countries not to devalue their respective currencies after the Second World War. A fixed exchange rate was maintained for a long period, despite high inflation in most of the countries. Several factors help to explain this decision. First, the inelasticity in international demand for agricultural products eliminated the advantages of devaluation to the exporters. Second, the governments were afraid that devaluation would have an explosive impact on inflation. Third, the combination of an overvalued exchange rate and a system of import licences provided, in several countries, important gains for industrialists. Fourth, the system of import licenses provided importers with ample opportunities for profit (Thorp, 1992: 194).

As a consequence of such a policy, foreign investment became a very attractive alternative, since it not only helped the balance of payments, but also allowed the ruling groups to deepen the process of industrialisation without undertaking a politically costly process of adjustment (Thorp, 1992: 195). Thus, the advantages offered by foreign investment explain why it was very welcome on the continent, despite the prevalence of an ideology of nationalism. One important consequence is that the fragility of the balance of payments gave foreign enterprises substantial bargaining power, helping to explain the local governments’ apparent incapacity to regulate and monitor their activities. One interesting exception was Colombia, where the power of coffee planters prevented the adoption of overvalued exchange rates. This alleviated balance-of-payments pressures and increased the government’s bargaining power in negotiations with foreign capital (Thorp, 1992: 194–195).

The development model adopted in Latin America was also strongly influenced by ideological factors. Sikkink (1991: 51) emphasises how the effects of the crisis of the 1930s influenced the political elites towards models of development centred on the domestic market. This pessimism in relation to foreign markets helps to explain the adoption of import substitution, although export promotion strategies would have received much more financial support from international agencies. After the Second World War, the ideas of the Economic Commission for Latin America (CEPAL), which theorised about the specifics of development in Latin America, gave legitimacy to
programmes of development centred on import substitution and marked by high tariffs and elevated state intervention.

This ideological influence, which was possible because of the governments’ capacity to circumvent the demands of the international financial institutions, is apparent when one observes the differences in the pattern of economic policy adopted in Korea and Taiwan. In the 1950s, these countries developed many characteristics typical of import substitution industrialisation, in a process marked by clientelism, multiple exchange rate regimes and lobbying from the import substitution industries aiming at reducing the entry of competitors. Similarly, the respective governments demonstrated resistance to currency devaluation, to simplification of the exchange rate regime and to curbing inflation. As a consequence, the process was marked by the emergence of several distortions, such as high inflation, inefficiency and disincentives to exports (Haggard, 1990: 57–59, 85–90).

As Haggard (1990) shows, a turning point was the capacity of the US advisers to impose changes in the development strategy of highly aid-dependent Korea and Taiwan, such as stabilisation programmes, currency devaluation and a simplification of the exchange rate regime. Thus, this influence of US authorities was critical to the shaping of economic policy and to the adoption of measures that favoured an increase in exports (Haggard, 1990: 68–71, 91–93).

As argued above, the situation was very different in Latin America, where orthodox economic ideas were viewed with distrust and considered unsuitable for the reality of the continent. CEPAL developed an alternative theoretical interpretation that won support among politicians and technocrats. Consequently, although CEPAL condemned many distortions practised in these countries, its ideas contributed to the legitimisation of a model of industrialisation centred on high tariffs and a laissez-faire approach to inflation. As a consequence, they increased the politicians’ capacity to adopt measures that aggravated the distortions even further.

The International Context and Brazilian Policies after 1945

It is important to emphasise that certain policies were reversed in Brazil as a result of US foreign policy and low levels of foreign investment. In addition to its initial liberal orientation in trade policy, the Dutra government (1946–1950) demonstrated a strict commitment to controlling inflation and very positive results were achieved in 1948 and 1949. Nevertheless, the direction was not maintained after 1949. Besides the industrialists’ pressures for credit and the government’s objective of winning the elections, the change was motivated by the fact that more liberal economic policies had not

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3 Another important difference between Latin America and East Asia was the relative power of the various social forces. In Korean and Taiwan, the agrarian groups, the labour movement and the import substitution interests were much weaker than in Brazil and Mexico. Consequently, while American pressure was fundamental to explaining the governments’ disposition to change economic policy, the weakness of social groups increased their capacity to do so.
produced the expected results. Foreign capital did not materialise, reducing the policymakers’ faith in the advantages of an orthodox policy.

Similarly, the Vargas government demonstrated a disposition to control inflation in 1951 and 1952. The agreements with international financial institutions and the possibility of obtaining resources to finance projects in infrastructure convinced the government of the suitability of a stabilisation programme. Nevertheless, the victory of Eisenhower in the US elections, the subsequent change in US priorities and the disputes between the World Bank and the Eximbank frustrated the plans. The Eisenhower government did not honour the previous administration’s commitment to finance the projects, while the World Bank forced Eximbank to adopt stricter conditions in the concession of loans (Vianna, 1990: 132). From 1953 onwards, difficulties in stabilising the economy increased: the government expanded expenditure in infrastructure, while political difficulties hindered the adoption of a firm programme of stabilisation.

In brief, the international context and the objectives of US foreign policy had an important impact on economic policy decisions. The European economies were under reconstruction and the elasticity of Brazilian exports was indeed low, explaining in part Brazilian pessimism regarding the capacity of trade to spur economic development. Similarly, direct foreign investment was mainly directed towards Europe, while Brazil suffered because of the lack of an international aid programme and with the changes in US priorities. As a consequence and in the face of significant domestic challenges, the response was an increase in state investments in infrastructure and heavy industry. Given the political obstacles to increasing taxes and to reforming the financial system, compounded by the lack of institutional capacity to do so, the strict control of inflation became a very hard task.

The Technocrats and the Role of Ideology

Sikkink (1991) and Leff (1977) argue that ideology and political culture are key variables in understanding the specific development pattern adopted in Brazil. According to Sikkink, the political culture was very favourable to state intervention and facilitated the acceptance of developmentalism by the different social groups. Sikkink (1991) also emphasises the role of technocrats: the creation of public bodies of economic studies, in the 1930s and 1940s, produced technocrats who, concerned to identify the best options for economic development, contributed to increasing support for industrialisation programmes aimed at reducing foreign dependency.

Similarly, Leff (1977), drawing on interview evidence, attaches considerable importance to the technocrats’ autonomy and to the role of ideology in the economic policymaking process. Leff (1977: 135) emphasises how the existence of technocrats with similar views, staffing important organs in subsequent governments, explains why the lines of economic policy ‘have been relatively constant since the end of the 1940s’. According to Leff, this explains the distortions that marked the process of industrialisation: the policymakers shared points of view that were considered so self-evident that they were incorporated as axioms, without an accurate analysis of the alternative lines of economic policy. As Leff (1977: 127) points out, ‘because of ideology, there
were no debates about issues such as industrial development versus development of agriculture; light industry versus heavy industry; or import substitution versus the promotion of exports’.

According to Leff, the political elite defended a priori an import substitution model based on heavy industry. As these ‘self-evident truisms’ did not necessarily coincide with reality, this process was vulnerable to the adoption of inconsistent policies. This is very well illustrated by the adoption of an export policy which, as it was considered secondary by the economic policymakers, was inadequately conceived and contributed significantly to the imbalances that marked the industrialisation strategy (Leff, 1977: 126–127). Leff also emphasises the implications of an ideology that was very permissive in relation to inflation. According to Leff (1977: 143), the trade-off embraced by the policymakers was not between inflation and stability, but between inflation and development versus stabilisation and stagnation. President Kubitschek (1956–1960), for example, believed that to address the national problems with stabilisation was to use the wrong medicine (Sikkink, 1991: 123). Instead, he believed that expansion in expenditure via printing of money, if used to produce investment, would not provoke inflation. Vargas espoused similar ideas. Consequently, a certain amount of inflation was seen as inevitable and as a small price to pay for economic development.

Sola (1982) and Bielschowsky (1988) argue that Leff underestimates the divergences between the technocrats. As Bielschowsky (1988: 427) argues, the period 1953–1955 was marked by the technocrats becoming conscious of ‘the importance of political struggle in the intellectual field’. This led to an intensification in their attempts to influence the course of economic development. Sola and Bielschowsky classified these technocrats into three main categories. Their main issues of divergence were the degree of protectionism, the role of foreign capital, the degree and nature of state intervention in the economy and the priority to be given to the fight against inflation.

The first group, the neoliberals, emphasised the necessity of controlling inflation, reducing state intervention, ending price controls and giving a central role to private initiative. This group was very critical of the development model adopted since the 1930s, which had been marked by strong government intervention, very high levels of protectionism and a permissive treatment of inflation. The public deficit was seen as the main cause of inflation, which, in turn, was responsible for the main distortions present in the economy. According to this group, high inflation also bore a key responsibility for balance-of-payments difficulties, since it discouraged both domestic saving and foreign investment.

A second group, the ‘developmentalist cosmopolitans’, shared some views with the neoliberals, such as the important role attributed to foreign capital and the necessity of keeping inflation under control. Nevertheless, they supported planning and believed that the state had a critical role in guiding the process of industrialisation, specifically the provision of incentives to private investment, playing an entrepreneurial role in

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4 Sola (1982) shows in detail the involvement of the technocrats in this process. They organised themselves in clubs, edited journals, gave lectures at universities and military schools, contacted business organisations and worked as advisers to political parties and economic groups.
high-risk sectors, and the undertaking of institutional reforms ‘aimed at mobilising and channelling both the human and financial resources to priority targets’ (Sola, 1982: 113). In this sense, the cosmopolitans also had points in common with the third group, the ‘nationalist developmentalists’. Both groups supported a central role for the state in centralising financial and administrative resources and in planning the process of development (Bielschowsky, 1988: 398).

The ‘nationalist developmentalists’ centred their argument on the structural problems inherent to peripheral countries that had historically been agro-export economies. The group identified serious structural deficiencies in the Brazilian economy, which included low productivity, limited diversification, shortfalls in capital and technical resources and a lack of basic infrastructure services. They further identified the existence of structural problems in the balance of payments, a result of the slow increase in the international demand for primary products and of the deterioration in the terms of trade for these products.

According to the nationalists, the possibility of economic development thus required a process of industrialisation led by the state. Industrialisation, by permitting the substitution of imports and the export of goods with high-income elasticity, was seen as the only way to reverse the structural difficulties in the balance of payments. Likewise, state intervention, through a process of planning, was supported because it was seen as necessary to the creation of external economies and to the generation of rationality in the absorption and allocation of resources (Bielschowsky, 1988: 386). One important consequence of the nationalist developmentalist argument was the permissive treatment of inflation. Once the solution of the structural problems demanded an increase in public investment, a certain level of inflation and national deficits would necessarily have to be tolerated. In other words, increases in investment and in production were supported, even though they generated inflation in the short term, because of their capacity to defeat the real and long-term problems in the economy.

The nationalists showed a high degree of mobilisation and had substantial influence in the policymaking process. Many factors were responsible for their success. First, they were supported by the industrialists, who created technical organs and sponsored studies to advance their respective positions. Second, a nationalist program of industrialisation was supported by the military, concerned to keep control of strategic industries in Brazilian hands. Third, a set of ideas that valued a process of planning tended to receive support from a substantial part of the bureaucracy. And last but not least, by supporting investment and tolerating inflation, the nationalist model tended to receive enthusiastic endorsement from politicians.  

The three different positions illuminate important issues concerning the development programme. During the Vargas and Kubitschek governments, the cosmopolitans and the nationalist developmentalists occupied key posts in the government and had substantial influence in the policymaking process. The government’s main priority was to deepen industrialisation, and technocrats were brought into the policymaking process in an effort

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5 In addition, the position of the developmentalists was strengthened by the publication of the theses of CEPAL, an organisation that enjoyed considerable international prestige (Furtado, 1997: 208).
to give rationality to the process. Combating inflation was given a lower priority, despite the criticisms of the cosmopolitans such as Roberto Campos and Lucas Lopes, the architects of the frustrated programme of economic stabilisation in 1958.

The Industrialists and the Development Model

An important element in shaping economic policy was the role played by industrial businessmen. Although the state increased its capacity to intervene and became more insulated in certain areas, the industrialists had important channels, dating back to the 1930s, through which to introduce their demands and they thereby exerted significant influence on economic policy. Leopoldi (2000) shows how, during the Dutra government, the influence of business was much more considerable than is usually accepted. The Minister of Labour, Industry and Trade was a leader of the Federation of Industries of São Paulo (FIESP), and business people were very active in imposing their directions through campaigns and personal contacts. Accordingly, Congress was very frequently lobbied and pressured.

One important objective of the industrialists during the Dutra government was to guarantee that the foreign exchange accumulated during the war would only be utilised according to defined criteria. In addition, they engaged in fierce mobilisation against the main conclusions of the Abbink Mission, which prescribed an orthodox program of stabilisation centred on credit control (Bielschowsky, 1988: 385). The industrialists’ position against stabilisation programmes was maintained in the following years. Another stance of the industrialists during the Dutra government was their opposition to currency devaluation. Instead, they supported ‘protection against devaluation of other currencies’, participation of the business class in international trade agreements and incentives to exports (Leopoldi, 2000: 186). Furthermore, they considered a programme of import substitution to be the best way to solve the structural problems in the balance of payments.

Business influence was strengthened during the second Vargas government (1951–1954). The nationalist position of the President put the industrialists in a very privileged position. The creation of the Assessoria Econômica, responsible for supplying direct advice to the president and staffed with several technocrats who had previously worked in the business associations, also contributed to increasing the industrialists’ voice in the government. Business influence was particularly important in policies on tariffs and foreign trade. The industrialists had many contacts and easy access to those bodies responsible for the respective policies, Carteira de Exportação e Importação (CEXIM) and the Carteira de Câmbio do Banco do Brasil. The president of the Confederação Nacional da Indústria (CNI), Euvaldo Lodi, had weekly meetings with President Vargas and also had very frequent contacts with authorities of the

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6 During the Café Filho government (1954–1955), for example, the industrialists were strong opponents of the programme of monetary stabilisation proposed by the Finance Minister Eugenio Gudin. They pressured the governor of São Paulo and led President Café Filho to change the policy on credit. This interference provoked the resignation of Gudin and the appointment of a new Finance Minister, who loosened control over the monetary policy (Leopoldi, 2000: 242).
Banco do Brasil, CEXIM and the Superintendência da Moeda e do Crédito (SUMOC, the organ responsible for the control and supervision of the monetary and financial policy). Finally, the industrialists gained access to Itamaraty, the organ responsible for foreign policy, and won a guaranteed right to participate in the consultative commission on trade agreements (Leopoldi, 2000: 139, 194).

The following examples illustrate the influence of the industrialists during the period. On the eve of the Korean War, they lobbied intensively within the government and participated in a definition of the imports necessary to protect the country against the risk of a long war (Leopoldi, 2000: 144, 191). In 1953, the industrialists strongly criticised the adoption of Instruction 70 of SUMOC, a law that created a multiple exchange rate regime, without previous consultation with their representatives. After that, the business class had influence on all important foreign exchange policy issues, including changes in Instruction 70.7

During the Kubitschek government, the industrialists maintained important channels open to introduce their demands and had access to an area that was strategic to their interests, that of tariff policy. Although the foreign exchange policy became more insulated, the industrialists had a seat in the Conselho de Política Aduaneira (Council of Tariff Policy). Furthermore, the communication between business groups and government was favoured by the creation of the Grupos de Trabalho and Grupos Executivos, which brought together representatives of the public and private sectors to elaborate and implement industrial policy in the respective sectors.

In conclusion, business influence was intense during the period. Although the state increased insulation in certain areas, the industrialists had strategic channels to introduce their demands and to bring pressure to bear in pursuit of their interests. As Leopoldi (2000) shows, the industrial bourgeoisie, although not a hegemonic force, had influence and the government could not disregard their interests. Although the bureaucracy achieved autonomy in certain issues, being able to adopt unpopular measures, it had to negotiate and offer concessions in other areas.8 In brief, the industrialists played a key role in the definition of a pattern of economic policy marked by high tariffs, an overvalued exchange rate and a permissive treatment of inflation.

Economic Challenges and the Role of the Social Groups

In the 1930s, in the face of the serious crisis that shook the structures of the agrarian export economy, the state was called on to play many functions in the restructuring of the economic system. In the following years, the state deepened its intervention, addressing issues considered critical to national development. In those years, the  

7 During the Café Filho government, the industrialists strongly criticised Instruction 113 of SUMOC, which authorised the importation of machine and equipment without exchange rate cover. One important consequence of Instruction 113 was that it reduced the influence of the business class over foreign investment policy (Leopoldi, 2000: 247–248).

8 This helps to explain the Brazilian state’s incapacity to make the offer of subsidies and incentives conditional upon an increase in competitiveness, a key component of the success of the Developmental States in East Asia (Guimarães, 2003).
international context remained highly complex, eliminating, as has already been seen, the possibility of a smooth integration into the international market. In this sense, there were significant economic challenges, including the urgent necessity of public investments in infrastructure, which were very important in determining the choices of the Brazilian presidents. Such an overall context demanded a strong state and a process of intervention able to correct the imbalances of the previous process of industrialisation.

In order to evaluate the constraints on state action, it is necessary to take into consideration the very broad coalition that, since the 1930s, had to be taken into account in the political process. This included segments of the agrarian oligarchies, the industrial bourgeoisie and the middle classes, while the incorporation of the labour movement was necessary to avoid instability. The influence of these heterogeneous social groups, demanding policies that addressed their concerns, reduced the degree of government freedom. These forces were well represented in Congress, well organised to block reforms that disregarded their interests and well prepared to resist any strict stabilisation programme.

The difficulties were aggravated by the strengthening of the labour movement in the 1950s. Although labour was never a partner in the policymaking process, it significantly increased its demands and, through strikes and demonstrations, became a significant source of instability. Both Vargas and Kubitschek had to go some way towards meeting workers’ concerns, adopting policies that outraged the conservative groups. In this sense, the difficulties in conciliating such heterogeneous interests explain in great part the challenges of governing that marked each government. The possibility of accommodation was hindered by the lack of political parties able to aggregate demands and achieve negotiated solutions. The two main parties, PSD and UDN, represented basically the same interests and were divided mainly by their previous support or opposition to Vargas. Meanwhile, the deepening of industrialisation intensified the divergences between the PSD, a conservative party, and the PTB, a party that aggregated the trade unions and other popular sectors. This made it impossible for the coalition that supported Kubitschek to maintain itself, thereby creating an explosive source of instability.

Consequently, the governments faced many pressures and had to reconcile very different interests, while the low degree of development precluded the implementation of widespread compensatory policies. In addition, the governments faced the risk of a military coup, in a democratic system that did not have deep roots. In such a context, it is not difficult to understand their preference for accelerating the process of industrialisation. The respective presidents, who believed in the critical role of the state in the modernisation of the country, prioritised increasing public investments and expansionist policies. Kubitschek, for example, had been a very entrepreneurial governor and had ambitious plans. After the political difficulties and the attempted coup that marked his inauguration, he was not willing to give up his Target Programme in order to adopt a programme of stabilisation.

Conclusion

In conclusion, the international context, the political culture, the role of the technocrats and the influence of the social groups, especially the industrialists, were decisive factors
in explaining the pattern of economic policy adopted in Brazil in the period 1930–1960. In the face of the existing challenges and political pressures, a very strong external influence was necessary to force the policymakers to change direction. As has been seen, the international community did not do this, at the same time as the developmentalist ideology endorsed by CEPAL lent legitimacy to practices that gave stabilisation and adjustment secondary importance.

Although the analysis is limited to a specific period, certain features are relevant to subsequent years. After the military coup, in 1964, the government devalued the exchange rate and modified the exchange rate regime, giving significant stimulus to exports. Nevertheless, inflation, after a successful stabilisation program during 1964–1967, increased again in the 1970s. The search for political support favoured the adoption of expansionist policies, while the business class steadfastly resisted any stabilisation package. In addition, ideology continued to lend support to increasing state intervention and to a permissive treatment of inflation. At the end of the decade, inflation and balance-of-payments problems became very serious indeed, becoming key components of the severe crisis that paralysed the Brazilian economy in the 1980s.

The severity of the crisis prepared the conditions for the emergence of a very different pattern of economic policy in the 1990s, marked by a completely different role for the state and by a distinct form of insertion into the new economic international order. Changes in the economic order, reducing the instruments available for state intervention, radically altered the viability of the previous model of industrialisation. Very important in this process of change was the severe economic crisis, which left few alternatives open to governments and was critical to overcoming the inbuilt resistances to the implementation of liberal reforms. In addition, trade liberalisation gave the business class a different role in the new economic order, while economists and other technocrats, graduated from US universities, became key agents in the implementation of the liberal reforms. In brief, a very different pattern of economic policy assumed a place in developing countries; a historical institutionalist analysis, as undertaken in this article, remains very useful for understanding the similarities and the differences in the respective responses.

References


