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The Brazilian Economy in 20th Century

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Introduction: The Development of the Brazilian Economy after the Wall Street Crisis till the Debt Crisis of 1982

In this brief text, we will try to discuss the problems of the Brazilian Economy and how these problems are affected by the globalization. After the crisis of 1929, the commodity export economy reached a very deep crisis that was caused not only by the crack itself but also by the coffee overvaluation politics in use since the beginning of the 20th century¹. In the aftermath of the crisis, the new Brazilian government started to use a new kind of economic policy, some sort of Keynesian policy before the publication of the General Theory, in which the Brazilian government bought coffee from the coffee producers to keep the level of activity together with capital controls that allowed the government to have the whole control of the foreign reserves.

In this moment, with the confusion created in the world economy Brazil was able to make a national policy of development as many others countries like Germany did in the same time. But we were a very poor economy with a very low level of development despite the huge export

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In this issue, see CARDOSO DE MELLO & TAVARES (1985).

sector that we had, one of the top 3 in that time. In this sense, Getúlio Vargas, the Brazilian President, start to create public enterprises and a public sector able to control and impose national policies of development. Until the forties, the Brazilian government had a lot of ability to deal with the USA and with Germany - the great economic powers at that time - and it provided the Brazilian economy with a lot investment goods and funding unavailable in our country. With the beginning of the World War II, this situation could not stand much longer and Brazil took the side of the Allies and receives in a very hard negotiation his first steel plant, CSN. It was some of first steps of the Brazilian development towards an industrial society and had a lot of impacts over the economy.

But in this first phase that goes till 1955, the Brazilian industrialization has very important blockades to the continuation of the process. The lack of an industrial sector able to provide investment goods was a critical problem for the maintenance of the economic growth because we were short in machinery, equipments and so on to keep the investment rate in an appropriated level. So we had a Gordian knot in the external sector that made absolutely essential the control over the foreign exchange in order to direct all the dollars and pounds to the investment goods.

Until 1955, we gave other steps in the direction of the development with the creation of the PETROBRÁS (public monopolistic enterprise of oil), the VALE DO RIO DOCE (public monopolistic enterprise of mining) and the BNDE (a state bank to provide finance to the public sector). But we still had problems to develop the whole investment goods sector. At this time, we were trying to do it only with efforts of the

state because the national private sector was unable to assume the risks of these activities and the foreign companies were not interested - at that moment - to do such a thing. But with change in the international scenario in the middle of fifties with the production internationalization - the looking for profit abroad by the corporations of USA and Europe - the things has changed.

The access to the investment goods means not only a lack of funding and foreign exchange but also the lack of the technology. Differently of the situation of the 19th century were the technology and the funding required were available to any country able to make the correct policies like Germany, France and Japan, in the 20th century the scenario has changed a lot: the funding requirements are unbelievable bigger and the technology is in the hands of the big corporations already in place. So with the change of the Competence Capitalism to the Monopoly Capitalism the National State has an even more important role in the development.

In this sense, the alternative to continue with the development of the Brazilian economy was a more close association with the transnational capital to obtain the technology and the funding necessary to install, at the same time, the whole investment sector. It is absolutely essential because of the potential problems in all the chains of production and in the intra-sector demands, so the solution was presented by Juscelino Kubitschek, the President who created Brasilia. In the Plano de Metas (Target Plan), he implanted the whole investment sector required for an industrial economy without external debt and with an association with foreign capital and with the national private capital named the *tripod model*.

After the end of his presidency, the Brazilian economy could be considered as a complete industrial economy - but not without problems. These problems are related with the tripod model, more specifically with incapability of the Brazilian economy to develop big corporations. "The State Monopoly Capitalism assumes in Brazil particular characteristics that are consequences of the late late industrialization. By one side, the monopolistic structure is marked by the existence of state productive sector in the base industry and by the deep internationalization process of the productive system, and because of it, the national monopolistic capital had a very huge frailty structure" (CARDOSO DE MELLO, 1977, p. 16).

The tripod works pretty well to copy the industrial structure of the most developed capitalist industry but cannot deal with problems of the technology development and with the funding creation. Let's see why. When we look to these issues more closely, it is easy to see that no leg of the tripod were able to assume the leading role necessary for the continuity of the economic growth. With the division of tasks made during the Kubitschek government, no leg of the tripod were able to continue with conglomeration process that it is a natural consequence of the economic development: the foreign capital was responsible for the durable goods industry and also for some of the most important industries of the heavy industry like machinery and equipment; the state capital was responsible for the production of industrial commodities, the industrial raw materials, energy and infra-structure; and the national private capital was called to participate in remaining spaces like civil construction, automobile parts and the finance sector.

But this segmentation could no longer exist because it blocks the capital centralization needed to the further development of the Brazilian economy, i.e., the technological development and the funding creation ask for big corporations. For example, HOBSON (1894) shows that since the beginning of the last century the capital accumulation is increasingly based in the market domination done by the big corporations because this is the most appropriated way to boost the profits. The growing size of the plants and of the financial strength and the more and more monopolized market structure led to even bigger profits. As this strategy is successful, the spread of monopolistic structures are the logical outcome in all the sectors of an economy and in the financial system as showed by LENIN (1916). “Any form of trust necessary led to a concentration of the financial capital which could not be reinvested in the inside the trust industry itself. It should expand for outside. The new profits have to be transformed in general financial capital and must be directed to the formation and the finance of other big corporations. (...) The continuous expansion of the exceeding profits obliges the search for external markets, not only for merchandises but also for direct investment and capital financial exportation” (TAVARES, 1985, p. XVIII).

So, the conglomeration process being successful, other countries are also reached by the monopolization process. This internationalization process is also helpful in the some moments of the business cycle because it allows the big corporations to defend his positions with operations of foreign trade and with swaps in foreign exchange. The outcome is even bigger corporations with an unbelievable financial potential what includes the capability to supply his own technological necessities. We cannot forget that it leads to an accumulation of unused

productive capability that could not be destroyed by the competition and, even more important, it creates a huge capability of financial valorization of the assets and any source of bonds what could and led to financial instability.

As this process is blocked in the Brazilian economy, let's see the sources of this blockade. From the perspective of the foreign capital, it easy to see that the correct process does not happened in Brazil; this process is already under way in the home country. In fact, the strategy of the foreign big corporations can be viewed as an outcome of the already presented movement what didn't imply that the local representation of the international capital in Brazil couldn't be highly profitable and at the same time able to invest in new plants. However, the fruits of the internationalization and of the conglomeration process are restricted to the home countries where the real expansion is done, the hardcore of the most deep interests and source of the cyclical dynamic.

In this way, the corporations are not seeking for a leading role in monopolization process of the Brazilian economy: they are not interested in continue with this process so this leg of the tripod through his passivity blocks the continuity of the economic development. "The local part of the corporation, as a fraction of an external capital bloc, is an instrument of the valorization strategy of the whole bloc. The penetration is an expression of a specific outcome of the inter-capitalist competition. As fraction it will dispose, for its valorization in the peripheral national space, of the attributes at disposal of the bloc and will seek corporate advice that come from the hardcore decision system. But, as capital that seek valorization in the national space, it will have its

logic macro-determined by the capitalist economy dynamism of the peripheral economy” (MACHADO RIBEIRO DE LESSA & DAIN, 1982/3, 1998, p. 253). And, most of all, in crisis eruptions it will function as last resort through foreign trade and exchange operation.

Regarding the national private capital, the problematic came from other side, related with the enterprise structure and motivated by social and political factors. The Brazilian companies - never big corporations but always familiar groups - have extreme pernicious origin vices for the reason that they were originated from the colonial export economy. Their vision is quite narrow because they don't want to be exposed to hostile takeover and this is explaining factor for the family property so they also close the door to the capital centralization. In fact, tripod formation pact establishes a small parcel of the industrial activities to national private capital. “The entrance in these industries (capital goods) require a so extraordinary amount of initial capital and the dominium of a highly complex technology that it was only available to the big foreign corporation and to the big state corporation” (CARDOSO DE MELLO & NOVAIS, 1998, p. 590).

At the same time it doesn't mean that the national capital had a narrow valorization space: its space is non-industrial and quite linked with real estate investments and neither a little bit interested in the creation of the financial capital. The capitals already established in the financial sector were also not able to make this movement because they were excessively connected to mercantile sphere, their origin, and backed in short run profits.

The fratricide between the different capitals which is the base of a capitalist economy at least in his origins is not allowed in the Brazilian

economy and also helps to block the capital centralization: here the blockade appears as a barrier to takeover of the others companies that make impossible the formation of national private big corporations. All the time they are not able to accompany the capital size requirements demanded by the economic development in the world. And we cannot forget that the industrial sector lives a very contradictory relation with the financial and with the export sector, both with a much differentiated dynamic.

By contrast, the South-Korean case is quite different because they didn't have this problems and the South-Korean State was able to lead the industrialization process. "In 1961, however, the field was clear for the assumption of state power. The landed nobility had been destroyed; the peasantry was less rebellious as a result of a land reform; and the 'captains of industry' were beholden to the state for their regeneration. Only workers and students remained as opponents to military rule. Industrial workers, however, were still only a small portion of the population. As for the students, their role in an industrialization based on learning became pivotal. The Hangul generation, the first generation of students since the nineteenth century to escape education under the Japanese, came off the streets and into the modern factories of the 1970s as managers" (AMSDEN, 1989, p. 52).

So, we need to ask why the Brazilian State was not able to do such a movement. When we look to the role of public corporation is easy to note that this is the most appropriate capital to assume the leadership in the continuation of the process as South Korea did. In late late comer industrializations, the role of the State Corporations and of the State itself is much more important because the planning capability, the

funding required, the association with the foreign capital and the capability to invest before the existence of the demand are bigger than in late industrialization of the Western Europe and Japan.

Here, we need to say that the Brazilian State had a very ambiguous position for the reason that he was the commander in chief of the most important investment decisions of the national economy, opening markets and new demands for the private investment that come only after the public action. However, the situation is completely different when we look to the profits division of the economy: the public enterprises only served as sources of profits to the private sector – national or foreign – what destroyed any possibility of an accelerated capital accumulation for the State capital. The subsidy provision, the low prices of the public corporations has crushed the chances of the prolongation of the economic development through the State corporations. More than this, the State was forbid to make any attempt of conglomeration or creation of holding in his enterprises.

Despite of his position as a one of the strongest legs of the tripod, the State capital was committed with the profit accumulation of the private sector. But this was a problem because it didn't solve our structural problems. In this context, the continuance of the economic development faced a challenge not surpassed but the existed structure. The most probable situation here, given the structure and all the restrictions, was the stagnation and the interruption of this process. Fortunately or unfortunately, the dawn of the globalization reached the Brazilian economy in the end of the sixties. With growing problems piled-up by the Bretton Woods system associated with the unbelievable expansion of the Euro-market – given the lenience of the Central Banks

of the Europe and USA - the underdeveloped countries became a new frontier to the capital exportation in the beginning of the globalization. As the banks were creating money in an almost pure credit economy in terms of Wicksell, they needed to lend it to someone in order to create more and more dollars. The consequence was the 'capture' of the economies like Brazil, Argentina, Mexico and South Korea: all these countries suffered an astonishing increase in their external debt.

It was a solution for the Brazilian capitalism, at least in the short run. Because the great difficulty was at that moment the appearance of some agent able to assume the leading role of the capital accumulation, investing before the demand - with an strong capital centralization enough to create a virtuous cycle. Without this transformation in the capital structure, Brazil adopted the effortless solution of the maintenance of the same problematic structure that could give further steps ahead with the huge injection of external debt provided by the globalization.

But this attempt was condemned to the failure. When you start to use external debts to provide funding to new investments in home, you need to have some strategy *at least* to cope with the debt payments like policies towards the augmenting of exports in an appreciable amount. As this secondary issue wasn't a concern for the authorities, the debt increase was really fast and soon we arrived to a *Ponzi* scheme of finance as we can see in the Table 1.

Table 1: Brazilian External Debt and External Interest Payments

Year	External Debt	Interest Payments
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	(US\$ millions)	(US\$ millions)
1970	6.240	284
1971	8.284	344
1972	11.464	489
1973	14.857	840
1974	20.032	1.370
1975	25.115	1.863
1976	32.145	2.091
1977	37.951	2.462
1978	52.187	3.344
1979	55.803	5.348
1980	64.259	7.457
1981	73.963	10.305
1982	85.487	12.551
1983	93.745	10.263
1984	102.127	11.449
1985	105.171	11.239
1986	111.203	10.245
1987	121.188	9.319
1988	113.511	10.591

8		
198	115.506	10.937
9		
199	123.439	10.868
0		

Source: Brazil's Central Bank.

When the United States in the pursue of maintenance of the dollar status as the most powerful currency raises the interest rates to almost 20% a year, the debt services experienced a sudden explosion. This could only stand with bank credit prolongation propitiated by the banks' financial frailty - consequence of the high exposure of the whole banking system to the debtors. But the situation was getting worse and worse and Mexico default in 1982 cracked the possibility to sustain such an unbearable situation. Since then, the Brazilian economy became half-stagnated and with another structural problem: the debt crisis and the IMF adjustment policies.

25 Years of Stagnation

With so many structural problems and pressed by the IMF and the U.S. government, Brazil became a country of very low economic growth in comparison with biggest rate of last 50 years (7,1% a year) as can be seen in the Table 2. All the parameters of the social and economic condition had a sudden stop in the improvement or just started to get worse.

So, we can truly speak of a very bad insertion in the dawn of the globalization that worsened the structural problems already in place. In the first phase of the globalization, Brazil created an excruciating burden

to the Brazilian economy in the next decade. With the high debt payments, the solution was a huge cut in public spending both in investment and in the consumption and at the same was required a large augment of the interest rates and the concession of subsidies to the export sector. This state of affairs was combined with a reduction of the elbow room for the government fiscal policy by two ways: the income was decreasing and exactly by this the government's share in the income and at the same time the inflation rate had heavy acceleration associated with the necessary and continuous competitive devaluations. So, all the demands were increasing over the State in growing penury: it imposes a significant deterioration of the social expenditure and a considerable weakening of all social indicators: the unemployment rate became large and significant, the wages in real terms had a decrease, the income inequality increased, the violence index exploded and so on.

Table 2: Brazilian Economic Growth, Percentage of GDP

Year	Growth Rate
Historical Rate (1948-1981)	7,1
1982	0,8
1983	-2,9
1984	5,4
1985	7,8
1986	7,5
1987	3,5
1988	-0,1
1989	3,2
1990	-4,3
1991	1,0
1992	-0,5
1993	4,9
Adjustment Period Rate (1982-1993)	2,2
1994	5,9
1995	4,2
1996	2,7

1997	3,3
1998	0,1
New Debt Growing Process Rate (1994-1998)	3,2
1999	0,8
2000	4,4
2001	1,3
2002	1,9
2003	0,5
2004	4,9
2005	2,3
New Adjustment Period Rate (1999-2004)	2,3

Source: IBGE.

With the new wave of globalization in the beginning of the nineties, the situation has changed not because we were able to grow again but because the policies were more or less the same and now the neo-liberal discourse was much more fitted with. We made changes in the regulation of the economy, privatization of almost all the productive sector in the hands of the State, we took out dozens of obstacles to inflow and outflow of capital and goods. But even with all this reforms and with large inflow of capital, we were not able to come back to the high economic growth rates, the interest rates were never bellow 10% a year and the all the economic structural problems remained unsolved deteriorating even more the social conditions of the population in general and deepen the difference between the few riches receiving interests and the many poor unemployed.

So, we can say that the globalization since its very beginning didn't help the Brazilian economy to solve her most important structural problem and helps to create another one. But the things didn't need to be in this way as we can see the successful experiences of India, China and South Korea were the integration passed by the productive markets

and not by the short run financial markets. It is important to establish what kind of participation in the globalization process is important and what could be harmful to the country. As a solution for problems, it passes for the fast economic growth, most of all. It is main question and requires a huge decrease of the interest rates, a reduction of the financial openness and the foreign reserves accumulation. After the coming back of the economic growth the whole situation is changed and social and economic problems will not be solved by some sort magic wand. But with the political clash between the social forces, remembering the fact that with the labour market heated the trade unions condition to fight for better conditions for the workers is stronger. In this sense, the economic growth in 7-8% is mandatory in order to open opportunities to solve the economic and the social problems of the Brazilian economy.

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