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Renegade Development: Rise and Demise of State-Led Development in Brazil

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Introduction

Disagreements arise not so much from different answers to the same question but because different questions are asked. Neoliberals examine an economy through questions appropriate to their framework. Is the economy regulated according to free market principles that permit the price system to reflect the relative scarcity of goods? Or, have the principles of comparative advantage guided decision making by economic agents?

To a typical neoliberal, the Brazilian economy is distinguished by its deviations from free market doctrine: high levels of direct and indirect state intervention in the economy, ostensible protectionism, low import/GNP ratio, and, at least until very recently, an obsession with industrialization unparalleled by any other Latin American country. Given these deviations, the long and profound crisis of the Brazilian economy does not elicit much interest on the part of the neoliberal analyst. In the neoliberal view, the end result of the strategy followed in Brazil could not have been otherwise.

In a critical revision of ideas widely accepted until the beginning of the 1980s (Wade 1990), there is a body of scholarship countering the neoliberal approach. It maintains that development can be fueled and, to a certain extent, orchestrated by the state. Gerschenkron's "latecomers," as well as the recent examples of teleocratic states of East Asia (Johnson 1981, 18), illustrate this possibility. The state's capacity to make and implement decisions to lead the economy toward major objectives is the main trait shared in these experiences. In these cases a considerable degree of autonomy is enjoyed by the state, warranting the use of expressions such as "state-led," "developmental

states," and "governing the market." How did these governments acquire their decision-making authority?

In the classic "latecomer" approach, great importance is placed on external challenges (extremely relevant in the Japanese and Russian cases) and on transfers of the latent political energy of previous regimes (the Junkers and Samurai are crucial in this regard). In the case of contemporary teleocratic states, a key factor is the international pressure experienced by these countries. It has even been said that the exceptional performance of the Asian tigers stems from their status as "half nations" whose very survival was under constant threat for an extended period of time. Other factors cited as instrumental in paving the way for state-led strategies are the destruction of dominant classes at the end of the colonial period and under the agrarian and educational reforms immediately following World War II.

Under these criteria, conditions in Brazil have not been particularly favorable for the emergence of an autonomous state. Notwithstanding the brutal shocks of the 1930s depression, Brazilian national sovereignty was never challenged by outside forces (Suzigan 1986). Moreover, no internal political forces, latent in the traditional power structure, were mobilized in support of industrialization. Exemplifying the attitude of the dominant agro-export elites is a remark by Júlio Prestes, their candidate in the 1930 presidential campaign, "Oranges will save coffee" (Prado Júnior 1956, 296). On occasion these elites openly opposed the transfer and concentration of resources required by industrialization (Martins 1976).

Despite the absence of some elements typically associated with the pattern of development centered on an autonomous state and rapid industrialization, the Brazilian government distinguished itself by its success in promoting sustained industrial growth. One of the most significant characteristics in latecomer and teleocratic experiences is remarkable continuity in the drive for industrialization. Brazil reproduced this in a surprising fashion from the early 1930s until 1980. The explanation for the "longevity" of Brazil's growth boom is twofold: not once did the country consider a return to pursuing natural comparative advantages, nor was the paralyzation of the economy ever considered as a "house cleaning" option, even in the face of threats to macroeconomic equilibrium. As a matter of fact, cabinet members who tried to arrest industrial growth in 1955 and 1958, and in less obvious attempts in 1967 and 1979, were ejected from power.[1]

During the long course of state-led development and in vivid contrast with the interruptions and reversals experienced in Argentina (Canitrot 1979 and 1991), national and foreign private capital was persuaded to invest in Brazil. Brazil enlisted the collaboration of private capital in the implementation of plans and programs whose maturation periods sometimes exceeded the terms of governments proposing them. Anxious to take advantage of these

opportunities, private capital behaved as if the continuity of development was assured.

As a result of the radical transformations of the postwar period, the Brazilian economy became endowed with a comparatively complete and modern industrial structure. For example, while the export of manufactured goods in 1967 accounted for only 10 percent of total exports, it surpassed 50 percent by 1981 and subsequently sustained this upward trajectory.[2]

Some positive results of this intense transformation can even be found in income distribution, a problematic area for Brazil. Table 1, which ranks the population according to income in ascending deciles, reveals that from 1960 to 1980 the poorest strata made substantial gains in their absolute income. The poorest 10 percent of the population saw their earnings increase by 92 percent in those two decades, while the decile immediately above experienced a 79 percent rise in income. As can be seen in Table 1, the much greater income gains of the richest 10 percent came almost entirely from the sharp concentration observed in the 1960s.

Table 1

Income Distribution in Brazil, 1960-1980

(Percent Change in Earnings of the Economically Active Population)

Decile	1960-70	1970-80	% Change 1960-1980
10th	20	50	92
9th	21	47	79
8th	18	46	72
7th	15	39	60
6th	9	30	42
5th	6	34	42
4th	8	48	60
3rd	21	47	79
2nd	35	51	104
1st	67	53	155

Sources: Data for 1960-1970 from Langoni (1973); data for 1970-1980 from Denslow and Tyler (1983).

Nevertheless, 1980 marked the end of a long cycle of impressive growth, and the Brazilian economy went from being a success story to suffering an interminable succession of crises. As a result, the Brazilian experience is now seen by many analysts as just another failed attempt at import-substitution industrialization. This chapter takes a different view. The broader sweep of Brazilian industrialization should be understood as both a peculiar and successful case of state-led growth which was brutally interrupted in the 1980s.

When compared to authentic cases of successful state-led industrialization, the Brazilian case poses the following questions: How did Brazil achieve high rates of industrial growth until 1980, even though it largely lacked the political resources for the state to design and guide economic development? In light of other Latin American experiences, how did Brazil manage to get beyond the so-called "easy phase" of industrialization? How was it possible to restrain the demands of those interests injured by economic transformations? What historical substitutes have emerged in Brazil for the political power of a full-blown developmentalist state? What are the implications of this peculiar heritage for Brazil's contemporary crisis?

A Synopsis of Rapid Growth

An important aspect of the Brazilian growth experience is the relationship between economic agents and overall economic performance in the cycle of intensive expansion-cum-transformation between the mid-1930s to 1980. As shown in Furtado's classic analysis, the Brazilian government's efforts to protect domestic income after the collapse of exports in 1929 were a first, and largely unintentional, step toward a new pattern of economic growth (Furtado 1975).

In 1934, and especially after 1937-1938, the government began to promote a transformation of the country's productive structure. Institutions were created to accompany — and, to a certain extent, guide — international trade and the growth of modern activities. The main example of this trend was the creation of the Conselho Federal de Comércio Exterior (Federal Council on International Trade—CFCE) (Monteiro and Cunha 1974; Diniz 1978). Also noteworthy was the government's preoccupation with the selection and training of its employees, as indicated by the creation of the Departamento de Administração do Serviço Público (Department of Public Services Administration—DASP) and the Instituto Brasileiro de Geografia e Estatística (Brazilian Institute of Geography and Statistics—IBGE), charged with gathering economic, social, and demographic data. Without doubt, this set of institutions markedly upgraded the state's capacity for the diagnosis and monitoring of the country's development.

Seen in perspective, the state equipped itself with the means to control, and eventually mold, the economic evolution of the country. President Getúlio Vargas' speeches during that period reveal an abiding desire to modernize the country's economy. Vargas declared in 1940, "Brazil will only be able to enter the ranks of developed nations through the restructuring of its organic forces and foundations on the basis of its fundamental industries" (Fonseca 1989, 262). The Brazilian government was largely reacting to acute international conditions, particularly the Great Depression and the coming world war. In an attempt to achieve its goals, the government created new

economic policy instruments, and, to some extent, managed to escape the dominance of traditional regional oligarchies.

These institutions and their bureaucratic personnel were transported almost intact to Brazil's post-World War II democratic phase (Campello de Souza 1976). When the Bretton Woods agreement advocated a full return to the free market, certain Brazilian institutions and practices came under growing scrutiny. The conflict over Brazil's growth path clearly expressed itself in the Simonsen-Gudin debate (Simonsen and Gudin 1977) and was also evident in the ambiguity of the presidency of Eurico Gaspar Dutra in the late 1940s, as we shall see next.

With Getúlio Vargas' return to the presidency in 1950, the government's commitment to development regained momentum (Vianna 1987; Fonseca 1989, Chapter 6). The international scenario at the time complemented the president's motivation and the militant determination of his advisers. In this favorable context, the Banco Nacional de Desenvolvimento Econômico (National Bank for Economic Development—BNDE) was created. The manifest intentions of its founders — to rationalize the use of public resources — meant that policies were to be consistent with technically justified criteria. In other words, and according to Finance Minister Horácio Lafer, the BNDE was to "resist the pressures to which public institutions are usually subjected" (Martins 1976).

The Juscelino Kubitschek period (1956-1960) is very important to the hypotheses advanced here. First, long-range goals were conceived in a deliberate effort to advance beyond conjunctural responses to perceived bottlenecks (Malan 1977). The Brazilian automobile industry is an example. To establish an auto industry, markets along the productive chain (from auto parts to final consumption) were shaped and sized, to different degrees, through economic policies such as fiscal and credit incentives. Indeed, backward linkages were deliberately introduced into the automobile industry through regulations created by technocrats of the Kubitschek government in the late 1950s (Hirschman 1968, 237). Since that time, the country's growth horizon has been associated with the constitution of a modern and complete industrial structure, based on the prevailing technological paradigm.

As important, if not more so, was the fact that the commitment to "growth-cum-transformation" ceased to be an objective espoused only by the government. The opinion of two privileged witnesses to economic policy debates of the time illuminates the prevailing climate. Lucas Lopes described the widespread public support for development:

> The shock that Juscelino brought to the country cannot be explained simply by looking at accomplished goals; it can be found in the climate he created in Brazil. Everyone wanted to have their own

> business. Even small industries in the countryside would look for ways to advance. Juscelino created in Brazil a climate of generalized economic development (Lopes 1991, 295).

A second witness, Eugênio Gudin, though a ferocious Kubitschek adversary, similarly described the "industrialization that characterized the period." He also noted that the movement was so strong "there was not a person who could resist; there was not an industry that was not built" (Gudin 1965, 202).

Summarizing the country's economic performance in the 1950s, Albert Hirschman affirmed that "there was at least one experience in Latin America — that of Brazil in the 1950s — that closely approached the scenario described by Gerschenkron." In support of this reasoning, Hirschman remarked favorably upon "the rapid and sustained advances in the steel, chemical, and capital goods sectors," the creation of special institutions "aimed at increasing the supply of capital," and the "flourishing of a development-oriented ideology" (Hirschman 1968, 245).

A final point must be added. During this period, the U.S. government, reinforced by international agencies, was actively counseling a slowdown, if not outright abandonment, of Latin American industrialization efforts; pressure was exerted via U.S. enforcement of international rules regarding foreign exchange and trade policies and, in some cases, by patronage of orthodox stabilization plans. Brazil, however, remained steadfast in its promotion of import-substitution industrialization. The government's sole capitulation to these pressures for economic liberalization was the implementation of an active policy to attract foreign investments.

The government's Programa de Açao Econômica de Governo 1964-1966 (Program of Economic Action—PAEG) stressed the need to "accelerate the pace of economic growth," while bringing the inflationary process progressively under control. The ranking of these objectives, as well as the terms used to describe them, is significant. The program was launched at a time of uncontrollable inflation (reaching 140 percent during the first three months of 1964). Yet the government insisted on achieving sustained annual growth rates of 6 percent, while promising to rein in inflation only gradually (Associação Comercial de Minas 1964, 87).

This commitment to "developmentalism" survived the crisis of populist democracy and was one of the hallmarks of the authoritarian regime that came to power through a military coup in 1964. Indeed, the military government's strict adherence to economic growth policies is often explained by its "need" to legitimate its power, which suggests that the commitment to growth was widely embraced in Brazilian society, particularly among the political and economic elites.

The conviction that Brazil could and should achieve sustained economic expansion explains why Roberto Campos, the powerful minister of planning, would defensively proclaim only a few months after the 1964 coup that contrary to public perceptions, he was not taking "precipitated measures that threaten to weaken the country's capacity to invest."[3] The commitment to growth was so strong that the regional interests of the agrarian elite, supposedly triumphant in the coup, found little receptivity (the hardships export interests imposed by Roberto Campos' coffee policy are a case in point). In fact, this elite did not even manage to translate its aspirations into a credible, alternative strategy under the military regime.

The military regime's preoccupation with development was ostensibly reaffirmed by the belligerent *Programa Estratégico de Desenvolvimento* (Strategic Program for Development of 1968-1970) and in a subsequent document entitled *Metas e Bases para Governo* (Goals and Foundations for Government Action). The latter document boldly affirmed that the main objective of the regime's economic policy was "that Brazil become a part of the developed world by the end of the century" (SEPLAN 1970, 15). More important than any plans or programs, however, was the climate prevailing in the country when the economy reached, and then surpassed, an annual growth rate of 10 percent. Perhaps the euphoria is best captured in Minister Antônio Delfim Netto's often-repeated boast that "it is now necessary to run in order to stay in the same place."

During the "Brazilian Miracle," the state seized upon another avenue to rapid growth for Brazil's young industrial structure: local enterprises — backed by government incentives — began to enter into international markets via the export of manufactured goods. This breakthrough meant that the more innovative and agile (but still heavily protected) industries were able to expand internationally (Baumann 1982). Naturally, the means adopted to break into international markets deviated sharply from comparative advantage principles, which were then being rediscovered in Latin America by the post-1973 Augusto Pinochet regime in Chile.

Brazil's commitment to sustained growth, firmly entrenched when the external shocks of 1973 hit, was deeply shaped by belief in rapid and uninterrupted economic growth, which had become incorporated into the worldview of the country's economic agents. This was evident in the Brazilian response to the crisis triggered by the quadrupling of oil prices. High growth rates had to be maintained. According to Planning Minister Reis Velloso, "If in August of 1974 we had set our growth target at 4 to 6 percent, the disappointment would have been widespread" (Barros de Castro and de Souza 1985, 35-40).

Far from adjusting to oil price increases by slowing the pace of economic development, the government of General Ernest Geisel (1974-1979) took an

activist role in promoting industrialization. Under Geisel, the restructuring of the economy took precedence over the promotion of growth for the economy as a whole (Barros de Castro and de Souza 1985). According to the authorities, efforts to modernize the economy would depend on taking advantage of opportunities not yet fully revealed by the market. State action was crucial to this effort. Reis Velloso echoed the perceptions that prevailed among the higher ranks of the bureaucracy noting, "government incentives are necessary to set heavy industry in motion, especially in sectors known for their low profitability and long maturation period." He added, "given the current situation of Brazilian industry, if we were to rely on the market economy, the country's private sector would not invest in areas such as iron and steel, fertilizer, petrochemical and non-ferrous metals" (*Visão* 1976).

The Convention of Guaranteed Growth

The preceding analysis suggests that the early commitment of the Brazilian government to economic development had shaped the vision of the country's economic agents. As the government infused the general population and principal economic agents with the idea of continuous rapid growth, an implicit pact or convention was born.[4] This merits a closer look.

If each economic agent believes that all other economic agents will attempt to pursue established goals, then the best alternative for them is to follow suit — despite unforeseen difficulties and obstacles — so as to stay in step. This principle is similar to the one Keynes observed in bankers' behavior: it is preferable to make the mistake that everyone else is making than to be correct in isolation. Consequently, goals and objectives, as well as economic development itself, tend to become self-fulfilling prophecies. The importance of this phenomenon cannot be overstated; the burden of providing decision makers with incentives was lightened, thereby reducing the need for state guidance.

Once the new convention was tacitly adopted, the potential for growth of the economy was no longer restrained by individual short-term expectations. Moreover, receptivity regarding the goals established by government authorities increased, as did the implicit conviction that individual success depended upon synchronization with unfolding global transformations. This phenomenon contributed to altering the way firms looked at the market and interpreted its relevant signals. In other words, each firm would try to occupy a position in a larger structure whose future existence was taken for granted. Furthermore, once economic agents had effectively adjusted their position in accordance with the expected outcome, subsequent experiences justified and reinforced the original decision. In the process, the weeding out of successful and unsuccessful enterprises did not take place according to processes typical of a market economy, but rather through a much more dynamic process

driven by "centrifugal forces" whose epicenter was to be found in the state apparatus.

The second pattern, closely intertwined with the first, concerns the maneuverability of the decision-making process. We already know that in Brazil this process was somewhat distanced from the available market signals. Whenever an important decision needed to be taken, state planners would refer to the stable structures operating in the advanced economies.

The process was similar to re-doing a jigsaw puzzle that had already been solved in more advanced contexts (Barros de Castro 1992). For example, if an automobile industry was being established, the economic agent had to gain access to information on the size of the market and the technology that was most likely to prevail within a certain time frame. Quantitative and qualitative adjustments were defined by growth-cum-transformation policies, protectionist measures (domestic content requirements, for instance), credit schemes for financing domestic consumption, and so on. Even though these factors did not nullify the importance of current costs and prices, they certainly limited their relevance in the decision-making process.

New patterns in Brazil's growth strategy illustrate how, as Delfim Netto suggested, a considerable effort was necessary in order not to lag behind transformations taking place in the economy. Obviously, not all actions, even at the individual level, could be understood as reactions to the market. Decisions increasingly (and to a certain extent, consciously) shaped the very environment in which the newly created productive capacity would operate. There was no refuge from the changes that were taking place, but it was possible to evaluate them incorrectly. Given the multifaceted commitment of the public sector to the changes in course and to rapid growth, the tolerance margin for *overestimation* was rather generous. These circumstances propelled economic agents toward what we may call "minimum safety" strategies. In this context, the government aversion to restraining economic growth and the economic agents' obsession with both incentives and guarantees were perfectly understandable.

From a neoliberal perspective, however, state intervention is generally seen as synonymous with rent-seeking behavior and probably corruption. The warnings are incessant: "Private entrepreneurs should learn as fast as possible to obtain profits from their performance in competitive internal and world markets, as opposed to trying to secure their profit-making capability through the political arena" (Ranis and John 1988). These warnings ignore the experiences (some characterized by very favorable growth rates) that do not conform to the neoliberal norm (Evans 1992), focusing instead only on the so-called "development disasters."

The Stability Convention

Another pertinent question raised by the Brazilian experience is, How was it possible to sustain a compulsion for high growth without incurring uncontrollable inflation? We shall assume that Brazil lacks the political assets of the authentic latecomers. Also, a certain degree of control over the inflationary process (whether real or perceived) is indispensable to the success of the experience because in the absence of relative control, sudden shifts in economic policy are a constant possibility. Under such conditions, economic agents will not undertake the risks that accompany certain investments, especially those that cannot be justified under the economy's *present* situation. In other words, the possibility of shifts in policy introduces doubt as to the viability of expected transformations — in which case the minimum safety strategy would lose its rationale.

Although inflation was identified as a central problem by the military government installed in April 1964, the new regime very soon came to adopt extensive indexing mechanisms. Indexation implicitly ruled out the immediate elimination of inflation. The government simply opted to eliminate the risk that inflation poses for contracts by correcting values over time. The new government's tactic apparently acknowledged the fear that the distributive conflicts (among the different social groups and between the public and private sectors) could not be solved in the short run.

In fact, the authoritarian regime faced another pressing problem: strong public demand for "growth now" (Simonsen and Campos 1974; Resende 1990). That is to say, the demand for growth was so strong and widespread and the inflationary process so complex (characterized by "repressed" inflation in the form of highly subsidized public tariffs) that harsh anti-inflationary policies capable of quickly remedying the situation could not be implemented.

The essence of the new solution was captured by Simonsen, who referred to the policy as "conditioned gradualism":

> ... conditioning factors are that the real GNP must grow at elevated rates in the short run, without being interrupted by any liquidity crisis.... The implementation of such a policy requires high levels of expertise from policy makers: first, it presupposes the continuation of present wage policy, then it requires a fine-tuned monetary policy with open market operations in order to avoid a liquidity crisis, on the one hand, and a reactivation of inflation on the other (Simonsen 1972, 94).

As Simonsen pointed out, this treatment "has the inconvenience of being slow, giving the impression that the government is stabilizing the rate of inflation and not the currency." He recognized, in addition, that this type of policy also

required "a certain amount of luck: once in a while, a good harvest is needed to force inflation down a little" (Simonsen 1972, 94).

The post-1964 military regime had, in fact, gradually accepted the criticism — voiced within the bureaucracy itself — that asked for a "qualitative goal" under which a mere decrease in the rate of inflation would be acceptable. However, the fact that stability was *simulated* (meaning the rate of inflation, rather than inflation itself, was being curbed) created a situation where things appeared under control, but the economy seemed somehow vulnerable. And the perception of vulnerability apparently justified an imperviousness to excessive demands by interests with access to the power structure (Hirschman 1984).

While the widespread use of indexation facilitated Brazil's relatively peaceful coexistence with inflation, this did not mean that different groups always accepted the rules of monetary correction and their consequences. On the contrary, many sectors and groups fought to recoup losses (whether real or fictitious) and to alter the rules of indexation. These conflicts produced serious consequences. The rules of indexation in effect in 1966 (when the currency and the exchange rate were not indexed and wages were underindexed) were very different from those in effect at the end of the next decade. Those responsible for the country's economic policy, however, did not seem to realize that the solution they found would necessarily evolve — and lose effectiveness — over time.

By 1979, the exchange rate was being adjusted every three weeks, while wages (no longer underindexed) were adjusted every six months. In both cases, indexation mitigated inflation's damage, but by 1979, the economy's capacity to assimilate adverse shocks without a violent impact on the rate of inflation was all but lost. Counteracting measures had become more agile (Sader 1988), thus making the precarious economic equilibrium even more vulnerable. Some understood the dangers inherent in this situation; President Geisel's year-end address to the nation warned, "the nation cannot coexist peacefully with annual inflation rates higher than 40 percent" (*Conjuntura Econômica* 1978, 4).

Table 2 contrasts the Brazilian inflation experience with that of other countries. It is notable that until 1973, the inflationary process in Brazil was "relatively neutralized" and did not worsen in contrast to the other countries. Furthermore, during the critical period of 1974-1975, the rate of inflation observed in Brazil was comparable to those recorded in Great Britain, Italy, and Japan. It is not surprising, therefore, that at that moment many economists of international stature began to consider the advantages of the "Brazilian solution" to the inflationary problem (Friedman 1991).

Table 2
Inflation Rates in Selected Countries
(Annual Average % Change in Consumer Prices)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
U.K	4.9	5.4	6.4	9.4	7.1	9.1	14.5	28.0	14.8	13.3	11.3
Italy	1.4	2.7	4.9	4.8	5.7	10.8	17.7	17.3	18.3	18.5	13.5
Japan	5.6	5.5	7.2	6.3	4.9	11.7	20.3	7.9	6.5	5.5	4.0
Brazil	21.0	22.0	22.7	20.2	17.0	12.7	25.8	29.2	40.5	44.0	39.1
France	4.6	6.4	5.3	5.5	5.9	7.4	13.7	11.7	9.2	9.5	9.2
USA	4.7	4.7	5.4	4.3	3.3	6.2	9.7	9.6	5.3	5.9	7.5
Argentina	16.0	7.7	13.4	35.0	58.5	61.2	23.4	182.5	443. 2	176.0	175.5

Source: International Monetary Fund and Fundação Getúlio Vargas, as published in Mário Henrique Simonsen, "A Inflação Brasileira e a Atual Política Anti-Inflacionária." Brasília: Senado Federal, 1979.

It was the perception of economic agents that the institutions and rules through which the effects of inflation were supposedly neutralized assured a kind of second order or "substitute" stability. Concretely, these institutions and rules were responsible for filtering daily economic information and for reducing the fears of individuals and enterprises that their long-term decisions would be threatened by the general economic situation. Another mechanism of self-fulfillment at work here should be noted: faced with adversities, Brazil's economic agents did not tend to alter their relatively easygoing stance.

While policy makers could take this tolerance, or even passivity, for granted (Carvalho 1992), the parameters within which economic policy could operate were narrowed, because any measure capable of seriously contradicting expectations became virtually unacceptable. This represented, therefore, a permanent veto — occasionally made explicit — of serious attempts to combat inflation.

The two conventions previously examined defined an environment that economic agents perceived as highly safe and conducive to investments of considerable risk. Besides being predisposed to accelerated growth, these conventions gave rise to a "teleocratic culture," in which decisions were guided by the pursuit of goals (Johnson 1981). The emergence of such a purpose-governed culture obviously lightened the burden of government policy makers in their attempts to steer private initiative in the desired direction. Seen from this perspective, the tacit conventions here examined (especially that of guaranteed growth) had the effect of bolstering the political capability of the government.

With these conventions in place, economic agents took their decisions, solidifying the expected growth and (substitute) stability. In order for the process to run smoothly, some provisions had to be in place that regulated

the socioeconomic environment and made financial undertakings viable, particularly as far as the state was concerned. The appearance of difficulties, however, did not necessarily endanger these conventions because they were endowed with considerable flexibility and thus allowed for successful management of unforeseen events and challenges. However, the maintenance of these conventions confronted several key questions — state autonomy, implementation of major investment programs, and containment of opposition to the development model — that were resolved in ways unique to the Brazilian experience.

State Autonomy: Plans, Goals, Bureaucracy, and Other Institutions

In Brazil, as in most of Latin America, the autonomy of the state cannot be taken for granted. By and large, governments lack a solid institutional framework for long-term governance of the economy. Governments also lack a powerful and stable nucleus of bureaucrats capable of assuring the intertemporal coherence of long-range decisions. It may be said, however, that at least some of the conditions required for state-led development (Johnson 1981) were achieved in the case of Brazil through a fluctuating combination of plans, targets, and various institutions created by powerful presidents such as Vargas, Kubitschek, and Geisel.

The implementation of major new investment programs usually called for the formulation of at least one large project which, due to the volume of resources needed, the lengthy maturation period required, the high risks involved, and the technical and organizational advances, necessitated direct government participation in the production of goods and services. For this very reason, we will examine the importance of state-owned enterprises in the vitality and continuity of the industrialization process.

Completing a triangle of difficulties, the maintenance of the growth and stability conventions meant that the development model with industry as its nucleus resulted in the marginalization of traditional activities and secondary geographical regions. An important question emerges: How was it possible to prevent groups from articulating their interests and eventually imposing alternative options on the government, thereby changing its goals in ways that would be detrimental to the industrialization process?

The launching of plans and targets capable of mobilizing Brazil's continental economy required political leaders of great weight and influence. The Vargas, Kubitschek, and Geisel administrations were moments in which these mobilizations occurred, shaping the economy for years to come. The full accomplishment of their programs could not, however, be assured; some projects had expected maturation periods of up to ten years, a period far

exceeding each president's term in office. Moreover, despite the prevalence of the growth and stability conventions discussed above, there was a small group of free-marketeers who never embraced the country's state-led industrialization. In the opinion of the tireless Gudin, for instance, "ghostly mechanics were brought to Brazil that were impoverishing, rather than enriching, the Brazilian people" (Gudin 1965, 202).

Plans and targets were, as a rule, the result of studies and proposals by the bureaucracy's leading technocrats. This process, which originated at the CFCE, gained a new dimension with the creation of the Comissão Mixta Brasil-EUA (Brazil-USA Joint Commission) and culminated with the BNDE (Daland 1969; Sola 1982). Incessantly providing successive governments with new ideas and a sense of "frontiers" (basically sectoral), the bureaucracy created for itself a political space and a privileged position that made the traditional politicians appear amateurish (Rudolph and Rudolph 1984, 121). The rapidity with which transformations took place was to the bureaucracy's advantage.

Indeed, fast growth perpetuated bottlenecks, imposed never-ending revisions of the development priorities, and made it necessary to finance long-term investment timetables. The importance of the latter is crucial, since it is through the periodic need for additional financial resources that technocrats exercised "guidance" and reaffirmed the original projects and targets, while resisting many of the pressures and demands of different groups. Here the relevance of the BNDE is unquestionable. Had the resources to be invested by public enterprises been obtained through the annual budgetary process, both the continuity and intertemporal coherence would be impaired.

On the other hand, the so-called "constitutional funds" (the portion of public revenues legally mandated for specific purposes) were also decisive. Through these mechanisms, a country virtually without a capital market and lacking strong planning institutions (like the Japanese Ministry of International Trade and Industry or the Korean Economic Planning Board) was able to sustain a continuous flow of fiscal and parafiscal savings compatible with its compulsive rate of accumulation. Those who focus on the vicissitudes and fragility of Brazil's formal planning mechanisms (and who pay no attention to the unique solutions found along the way) miss completely the relevance of the historical "substitutions" stressed here.

Finally, most large industrial projects backed by public funds corresponded to activities almost nonexistent in the country and which required the integration of new geographical areas into the national economy. Under these conditions, it is not surprising that the resistance to state initiatives was relatively slight. In fact, the very novelty of these projects helped to depoliticize changes which policy makers presented, by conviction or bureaucratic ritual, as *rationally justified*. In other words, the "vacuum-filling" technique — an official doctrine of the Brazilian government — was also an

implicit political tactic to explore lines of action that offered the least amount of resistance (for Latin American comparisons, see Mattos 1988 and Torres 1988). Therefore, the constant search for new frontiers — to the detriment perhaps of the consolidation of previous advances — is also a reflection of the state's limited power. On the other hand, and in order to mitigate the frustrations of marginalized regions, institutions like the Instituto Brasileiro do Café (Brazilian Coffee Institute—IBC) and the Instituto de Açúcar e Álcool (Sugar and Alcohol Institute—IAA) were kept alive, thus offering traditional elites some degree of power and economic prosperity.

Public Enterprise Subsystems: Pivots of the Investment Process

Soares Pereira informs us of the difficulties the Brazilian government faced when, in the 1940s and the early 1950s, it attempted to participate in economic activities that required autonomy and flexibility in the decision-making process. According to his analysis, "it was impossible to set a minimum standard of efficiency within the strict regime of public service, due to its dependence on Congress and the need to comply with the Public Accounting Code" (Pereira 1975). The government responded to the inability of the traditional bureaucracy to meet the growing demand for new public initiatives by creating different types of state-owned enterprises. These "hybrid" entities (Abranches 1980) combined a public dimension (to be commented on later) with a "private" capacity to make decisions that, by definition, could neither be controlled nor approved through normal bureaucratic and political channels.

Brazilian state-owned enterprises have been well studied since their creation. Rather than going over old ground, we will look at a select set of these enterprises whose properties and functions are key to understanding the peculiarity of the Brazilian experience. Particular attention is given to the manner in which public enterprises solved, in practical terms, some of the aforementioned problems. The view offered here does not attempt empirical description of the heterogeneous universe of public enterprises, nor will it necessarily coincide with popular interpretations that have emerged after the creation in 1979 of the Secretaria de Controle das Empresas Estatais (Secretariat for the Control of State-Owned Enterprises—SEST) (Wahrlich 1980; Werneck 1991; Dias Leite 1991).

State-owned enterprises pioneering in new activities were given the mission of advancing the country's economic development through the implementation of very large and bold projects. In addition to abundant financial support, this mission usually required a trial-and-error process through which new technologies and organizational arrangements were introduced. Ultimately, dedication to this mission conferred on state enterprise its *res publica* connotation. Rather than public ownership with an alleged "social purpose" guiding their activities, the fundamental role of Brazilian state

enterprises was defined with reference to the industrialization process. Luciano Martins (1985, 60) is, therefore, correct in asserting that state enterprises cannot be properly understood as mere reactions to external shocks and sectoral difficulties but must be analyzed as central components of a larger political project.[5]

Based on their broader objective, state enterprises sought to take advantage of opportunities by making alliances with private agents and attempting to increase their capacity to influence government decisions. Petrobrás is a notable example of an enterprise that capitalized on every opportunity by organizing itself into subsidiaries and establishing an extensive network of ties with numerous private enterprises that provided it with equipment, materials, and supplies. Indeed, as a result of its activism, Petrobrás was able to assume virtually exclusive control over Brazil's oil policy (Alveal Contreras 1992).

The branching of state enterprises into subsidiaries led to the formation of "systems" that played a decisive role in the structuring of certain sectors of the economy. The Petrobrás, Vale do Rio Doce, Eletrobrás, Telebrás, and BNDES systems (including not only subsidiaries but also a network of state and regional development banks) are all good illustrations of this evolutionary trajectory. Bear in mind, then, that to evaluate their role as a guiding force in the economy, one should take into account the ramifications of the pioneer enterprise (Justman and Teubal 1991).

The state enterprise was also conditioned by the nature of its sector and by the changing context of the state's role in the economy. These conditioning factors explain the notoriously different experiences in the oil and telecommunications public enterprises (Abranches and Dain 1978). This sectoral determination meant that state enterprises, besides being pushed and pulled in different directions by market signals, possessed distinct behavioral patterns. The counterpoint to this conditioning (which changed over time) was the original mission and the immutable legal principles on which state enterprises were founded. Potential tensions and clashes obviously had their roots here.

Failure to take into account the conditioning factors stressed above has led some observers to misleading conclusions. For instance, the impression that the intensification of investments in oil exploration by Petrobrás in the early 1980s had to do with policy preferences (Fishlow 1988) is erroneous; the oil industry has its own technical constraints and unavoidable decision-making sequences that must be taken into account in evaluating its performance.

State-owned enterprises, once set in motion, had their own resources and rarely had to compete for state monies to fund their *current* expenditures. Indeed, their capacity to generate internal resources and their intense commercial activities gave state enterprises advantages over other state institutions. This privileged situation led Roquete Reis to coin the term "power

inversion" to refer to the loss of authority by ministerial institutions over the state-owned enterprises in their jurisdiction (Reis 1980).

Advantages enjoyed by state-owned enterprises vis-à-vis private firms in the period from 1950 to 1980 were of a different nature, including preferential access to the state, greater influence in the formulation of economic policies in their area, and public support for their investment projects. Eagerly exploiting these advantages, some state-owned enterprises became genuine "accumulating machines." While gross domestic product (GDP) was growing at an annual rate of 7 percent, investments of the largest state-owned enterprise escalated from 3.2 percent of the total investment in 1963, to 16 percent in 1970, and finally to 22 percent in 1979 (Trebat 1983, 123). Moreover, investments by state-owned enterprises did not "crowd out" but actually encouraged private investment, which also grew at rates superior to the growth in GDP.

The relationship between large public enterprises and their workers also deserves attention. In some cases, the workers and employees derived their very identity from the missions and challenges faced by the enterprise. This contrasted sharply with the capital-versus-labor relationships common elsewhere in the economy. Consequently, the typical Brazilian state-owned enterprise of the 1950s and 1960s exhibited a high level of motivation — an *esprit de corps* — which might be said to evoke the contemporary Japanese enterprise (Aoki 1984).

State-owned enterprises had a decisive role in molding the sectors to be implanted or modernized, but their leadership was certainly not of a conventional type, centered around price determination. From an economic point of view, the behavior of state enterprises often parallels innovative enterprises positioned in branches of industry at the frontiers of technological change. Consequently, at least in their formative stage, state enterprises in Brazil frequently had little in common with conventional oligopolistic enterprises. By the same token, however, when interacting with other firms, state-owned public enterprises tended to exploit their privileged position and to exercise considerable political power.

A final characteristic of state enterprises was their almost insuperable difficulty in defining their "objective function." In effect, besides its own mission, each enterprise was supposed to pursue different goals that could change over time. Initially, state enterprises were seen as engaged in the equivalent of war. Later on, as routines were progressively established, the sense of mission naturally eroded — as efficiency in the use of resources gained increasing importance. At this stage, state firms tended to approximate the conduct of private enterprises. However, even mature state-owned enterprises had little in common with the typical family-controlled Brazilian firm. In fact, state-owned enterprises, together with multinational firms, introduced into the country the concepts and practices of professional

management as well as the utilization of profits for the expansion and diversification of operations.

In addition to promoting growth, profit making also favored growing independence from the state. The government itself strengthened the entrepreneurial aspects of state-owned companies. Decree No. 200 of 1967 explicitly guaranteed state enterprises the same autonomy enjoyed by private enterprises in terms of decision making, financial capacity, and technology. Later, and as an extension of this policy, the government required state-owned enterprises to pay corporate taxes and prohibited them from retaining dividends owed to the government.

The growing professionalism practiced in state enterprises (as the "heroic" phase was surpassed) can be seen as an aspect of the progressive maturation of a modern industrial structure. At the same time, state-owned enterprises performed a decisive role, transforming the government's general goals into attainable entrepreneurial objectives. Through state enterprises, it became possible to attain a certain degree of intertemporal coherence in decisions regarding the long-term transformation of the economy. Administrations came and went; yet, their basic goals were met and surpassed without the presence of a solid planning structure nor the existence of a stable nucleus of technocrats.

Concomitantly, however, social goals, which were left to the auspices of traditional government institutions, remained neglected. As the state-owned productive system expanded and became vigorously autonomous, the government's more traditional social functions were allocated to institutions fully exposed to mounting social pressures and vulnerable to the give-and-take of competitive politics, although politics was highly constrained under authoritarian rule.

As far as the future of state-owned companies was concerned, the complex and sensitive political problem of property ownership made attainment of greater autonomy difficult. This was true not only for genuine state-owned enterprises but also for troubled private companies that the state was forced to acquire in the course of industrialization. There was no a priori reason why a "happy ending" to the autonomy question — in the form of lease agreements, private participation, or even privatization — could not be found (Carneiro 1989, 81-95). However, state-owned enterprises never became effectively autonomous. Furthermore, very few ailing private enterprises were returned to the private sector. Unlike the Japanese and Korean experiences, the country's growth machine never gained a mature entrepreneurial structure.

Instead of promoting their autonomy, the government in 1976 appeared to be utilizing its enterprises as an ad hoc resource to attenuate macroeconomic conflicts and institutionalized them in 1979. These pressures, which emerged with great impetus as soon as it became difficult to obtain foreign funds

(Barros de Castro and de Souza 1985), were followed by growing central governmental interference in pricing policies. The state enterprises' capacity to generate domestic resources was thus doubly hindered, and opportunities previously opened to them began to disappear as a consequence of their declining autonomy and growing financial fragility.

A sequence of events that began with the second oil crisis stampeded the Brazilian economy, which in the late 1970s was poised to become an *industrial* economy. Attention to the country's macroeconomic problems, particularly mounting inflation and the growing trade deficit, took precedence over all else. With the creation of the SEST in the second half of 1979, the government ceased to recognize the long-standing entrepreneurial character of state enterprises. Under the pretext of an elusive austerity and structural adjustment, all state-owned companies (despite their markedly heterogeneous character) began to be used as instruments of macroeconomic regulation. With their autonomy drastically reduced and their financial base eroded by the state's fiscal crisis, they gradually fell prey to traditional politics.

These changes not only interrupted an evolutionary process characterized by considerable creativity but also coincided with the destruction of the previously defined conventions that permeated and informed the behavior of microeconomic agents — and which had imbued them with a special kind of vitality or "animal spirit." Even more unfortunately, these events coincided with the growing international diffusion of new patterns of organization and administration that made it possible for companies to become more efficient, less centralized, and, consequently, more agile in planning and decision making.

Dissolution of Established Conventions

The performance of the Brazilian economy deteriorated profoundly after 1979, especially with regard to stability and growth. The resulting effects clashed with deeply rooted beliefs that had strongly influenced the behavior of both governmental elites and private economic agents for so long. The consequences of this almost systematic frustration of expectations are impossible to gauge precisely.

Orthodox analysts take it for granted that any peculiar set of conventions will in due time be replaced by plain, ordinary economic rationality — once the rules of the game are fully restored. Maybe. The only thing we can be sure of is that a series of economic "earthquakes" during the 1980s effectively destroyed the previous conventions and left the economy in a dismal state. At this point in our argument, it will be useful to comment briefly on three critical junctures at which the conventions were openly defied and the consequences for the economy that followed.

In mid-1979 Brazilians were presented with widely divergent diagnoses of the unfolding crisis. Reacting to the new petroleum shock (which occurred before the government's energy program cut oil imports substantially) and to rapidly intensifying inflationary pressures, Finance Minister Simonsen attempted to persuade the new government, headed by General João Figueiredo, and the public at large of the need to impose a severe austerity and adjustment program.[6] Figueiredo found this advice politically unpalatable, and Simonsen resigned.

Antônio Delfim Netto, in a triumphant return to power as the government's economic czar, rejected his predecessor's somber diagnosis. On the day of his appointment, Delfim Netto proclaimed, "We are going to grow at a rapid pace, and at the same time we will balance our balance of payments and lower the rate of inflation" (*Gazeta Mercantil* 1979). The reasons why Delfim professed such confidence were never understood. In any case, the public repudiated Simonsen and enthusiastically applauded Delfim's optimistic vision, but the ensuing euphoria proved short-lived.

In December 1979, confronted with a rapidly worsening balance of payments combined with skyrocketing inflation, Delfim issued the first of what would be an interminable succession of "packages," promising to regain control of the macroeconomic scenario (Goldenstein 1985). Thus began the most radical shift in Brazilian economic policy in half a century.

We need not dwell on the vicissitudes of policy making that led to the economic downturn in 1981 (Bonomo 1986); a few statistics will suffice. Industrial production, which had expanded steadily by an annual average rate of 8.9 percent during the 1970s, and managed a 9.1 percent growth rate in 1980, shrank dramatically — by 10.4 percent in 1981. The sudden and drastic reversal of industrial performance, together with the inflationary surge amidst severe recession, shook the very foundations of long-standing behavioral patterns throughout the economy. Ultimately, this first economic quake brutally negated the long-enshrined convention of guaranteed growth and the implicit understanding among economic agents that Brazilian-style "administered inflation" was a relatively harmless phenomenon.

In 1981, the government tried to control inflation by announcing *ceilings* for the devaluation of both the exchange rate (40 percent) and the interest paid on public debt bonds (45 percent). The faith in the government which shaped the decisions of so many turned out to be misplaced. It soon became painfully clear that renewed growth was far from guaranteed and that continued high inflation (or, rather, erroneous expectations regarding inflation) would result in tremendous losses. In fact, economic agents began to realize that economic policies could lead down a one-way path in the wrong direction.

The second crucial moment in the dissolution of the past conventions came with the implementation the *Plano Cruzado* (Cruzado Plan) 'Beginning

in 1984, and during three consecutive years, Brazil experienced an exceptional conjuncture as the economy once again began to expand rapidly. The return to growth could, in a certain measure, be attributed to the final maturation of several gigantic projects launched by the *II Plano Nacional de Desenvolvimento* (Second National Development Plan—PND) (Barros de Castro and de Souza 1985). The acceleration of import substitution and the expansion and diversification of exports demonstrated that the daring option chosen by the Brazilian government in 1974 under General Geisel was correct.[7] On the other hand, the considerable progress made in fiscal adjustment from 1981 to 1984 led many analysts to believe that the economy had almost reached macroeconomic equilibrium and that inflation had become an *inertial* phenomenon based upon the formal indexation of the economy (Lopes 1986, Chapter 18).

The events of the period culminated in the launching of the Cruzado Plan in February 1986. The positive aspects of the recent surge of economic growth (including the significant rise in salaries beginning in 1985) were preserved and even strengthened by the Cruzado Plan's "heterodox" policies, while inflation fell almost to zero. In the famous phrase of Economy Minister Dilson Funaro (and the fantasy of many who wanted to believe him), Brazil was poised to achieve "Japanese growth rates with a Swiss inflation rate." It was tempting to believe that the previous conventions concerning growth and stability had, somehow, undergone a glorious revival.

In the heady climate of euphoria that took hold of Brazilian society, the old conventions were now associated with democracy. Indeed, for many, the wage increases, begun in 1985 and vigorously confirmed in 1986 (Camargo and Ramos 1988), marked a fundamental difference between the performance of the economy under the military regime (growth without distribution) and the more equitable growth made possible by the return to democracy.

The downfall of the Cruzado Plan occurred quickly and resoundingly. From late 1986 through mid-1987, inflation exploded, production and employment threatened to collapse, the balance of payments became untenable, and, for the first time in post-1930 Brazilian history, a number of companies teetered on the verge of bankruptcy. The disaster taught economic agents several bitter lessons that harked back to the 1979-1980 experience: 1) growth could not be guaranteed, 2) there was no way to protect against inflationary instability, and 3) perhaps most significantly, government economic "packages" and policy announcements simply could not be trusted.

The remainder of the term of the first postauthoritarian president, José Sarney (1985-1990), transpired in the midst of profound macroeconomic instability and the complete loss of perspective on the part of public and private actors. Inflation now operated in cycles (Leviatan and Kiguel 1992), which began with the introduction of an anti-inflationary shock including

price freezes, followed by the decay of the efficacy of government policies, the renewed acceleration of prices, and, finally, the imminent threat of hyperinflation. Following the failure in 1989 of the Sarney administration's so-called *Plano Verão* (Summer Plan), price increases in early 1990 hit hyperinflationary levels, surpassing 50 percent per month for the first time in Brazilian history.

The third earthquake, the *Plano Collor*(Collor Plan) introduced in March 1990, implied an important shift in the diagnosis of Brazil's high and chronic inflation. According to the architects of the Collor Plan, the problem essentially resided in the public-sector domestic debt, which had been transformed into a huge and volatile mass of immediate liquidity. In an "anti-liquidity" offensive, the government temporarily confiscated a considerable proportion of financial assets, including current accounts held by individuals and firms.

Despite its radical character, the experiment proved insufficient to bring inflation under control. In fact, another cycle kicked in soon thereafter, with prices on an ascendant trajectory, thus preparing the way for yet another shock. It came in the form of the so-called Collor Plan II, which proved equally ineffective (De Faro 1991): Monthly price hikes varied between 20 percent and 25 percent during 1992 and edged upward toward 30 percent per month by mid-1993.

The extremely negative impact of the Collor I and Collor II shocks may have negated the positive effects that might have been attained through the opening and privatization of the economy, a step strongly encouraged by the majority of private agents and finally adopted by the Brazilian government. The repeated frustrations to which economic agents were subjected, combined with the acute recession of the early 1990s, led these agents to view Brazil's economic environment as openly hostile. The fate of the Collor Plan, coming on the heels of the previous failures analyzed above, marked the definitive crisis of the conventions of growth and stability in effect from 1950 to 1980.

Final Remarks

The Brazilian economy and the patterns of behavior of its principal economic agents experienced profound transformation during the tortuous decade of the 1980s. A deeply rooted pessimism came to dominate the conduct of individuals and firms. This pessimism was manifest in a precipitous fall in the rate of investment from an average of 25 percent of GDP in the second half of the 1970s to only 14 percent of GDP at the beginning of the 1990s. Made fearful by an endless sequence of shocks, and with their occasional hopes repeatedly frustrated, economic agents adopted survival strategies whose basic elements can be summarized as follows:

- One should avoid exposure to any sort of risk (beyond general risks intrinsic in the Brazilian context). As a consequence, market stimuli should trigger price increases and only rarely, if ever, increases in the quantity of output.
- Individual and group interests should be protected aggressively and tenaciously. The consequences of this posture for others are to be ignored (since economic survival is at stake). As a corollary of this "principle," it is advantageous to eschew cooperation and, instead, act as a "free rider" whenever possible.
- Government decisions should be resisted. This inimical attitude toward the state implies an incessant search for "loopholes" in all laws, decrees, and policy measures. One should employ all legal or (if reasonably safe) illegal means to avoid compliance with governmental policies. This includes contesting governmental decisions in the courts in an attempt to nullify their impact or simply to gain time (an extremely valuable factor under high inflation).

This survival strategy reinforces both instability and stagnation (originally associated with macroeconomic disequilibrium). Previous attitudes of maximum risk taking have been turned upside-down. Old conventions of growth and stability have been repressed and perhaps permanently erased from the memory and behavioral repertoire of state elites and economic agents.

Both the zero-sum culture and the aggressive pursuit of self-interest inherent in such survival strategies make governance an extremely difficult proposition (Barros de Castro 1991; Dos Santos 1993). In these circumstances, economic policy instruments that had long steered the economy in the direction desired by state elites tend to be limited either to avoiding the worst (hyperinflation) or to launching veritable assaults on institutions and private contracts for the alleged purpose of redefining the entire system and initiating a new game.

The first option (avoiding the worst) offers declining returns: as expectations become more volatile and more pessimistic, economic policy makers are forced to intensify the simultaneous use of various "braking" mechanisms (monetary crunch, new taxes, stringent incomes policy) merely to prevent the acceleration of inflation. On the other hand, the damages implied by the second option resulted in growing aversion to shock therapies, obliging policy makers to (re)assure society repeatedly that no significant departures from past policies are contemplated, even when major shifts in strategy and tactics may be called for.

Trapped in this bleak scenario alternating between paralysis and sporadic "magic" solutions to the crisis, the Brazilian state has lost all but one of its previous traits, namely its size. The state remains big, but it is now

acephalous and impotent. State enterprises, in particular, have lost their entrepreneurial drive and relative autonomy. Transformed into macroeconomic policy instruments of remarkably low efficiency, many state enterprises barely manage to survive. Gone are the sense of mission and loyalty that (mainly in the 1950s but still in the 1970s) had impelled state enterprises to spearhead economic development.

Even worse, the potential advantages of state enterprises have been converted into handicaps: dispirited by the execration of anything and everything connected with the state (and offended by the squeeze on their salaries), public sector employees have lost their motivation and now struggle merely to extract privileges and concessions from a state prostrated by permanent crisis. In some cases, the appointment of self-serving politicians to the directorships of state enterprises exacerbate this pathological situation. It is hardy surprising, therefore, that many state enterprises, some with exemplary records, have degenerated to the point of confirming the worst indictments of their vituperative opponents.

After twelve years of a destructuring crisis, the Brazilian economy has, in a sense, regressed to a stage of underdevelopment that it was on the verge of surpassing in 1980. The average technological gap between Brazil and the advanced economies has widened across the whole spectrum of industrial and service activities. Domestically, the gap separating those enterprises that tried to accompany the vertiginous rhythm of organizational and technological transformations set in motion internationally during the 1980s and those falling by the wayside has grown enormously, exacerbating the structural heterogeneity of the economy as a whole. Some basic services, such as roads and telecommunications, which had attained European performance levels circa 1980, have now deteriorated dramatically, harming the economy's overall efficiency and jeopardizing its international competitiveness.

Nevertheless, Brazil's heritage of dynamic, modern enterprises, endowed with a trained work force and long accustomed to rapidly changing environments, has not been destroyed. Signs of continuing vitality are evident in the remarkable spurt of growth registered from 1984 to 1986 and in the widespread restructuring movement underway since 1990 (Bielshovsky 1992; Coutinho and Ferraz 1992). Although limited in scope and largely defensive in nature, it is noteworthy that for the first time in modern Brazilian history, a major transformation has been initiated and carried out in decentralized fashion by decision makers in the private sector. On the other hand, this vigorous private-sector response contrasts with the moribund condition of several state enterprises. Suffocated by governmental restrictions and chronically inadequate financing, state enterprises are deprived of the means to keep up in a world economy experiencing radical shifts in decision-making patterns and technologies. The rapid recovery of lost entrepreneurial autonomy —

through privatization or otherwise — is now more than ever the sine qua non of the very survival of these enterprises.

Apparently, the economy's potential for growth has been preserved, but this potential certainly cannot be realized without effective stabilization of the economy. Not an easy task, as the long sequence of failures has eloquently shown. Above all else, a comprehensive program that — at least in its first stages — will be fiercely resisted by many economic agents is imperative. Stabilization presupposes a government with strong political, administrative, and regulatory capabilities as well as considerable autonomy. As this chapter has argued, however, these are features of the Brazilian state that have been severely eroded.

Whatever may happen in the near future, one sad conclusion can already be averred: after more than a decade of conflict, the advocates of neoliberal reform and those resisting the imposition of market-oriented policies have been unable to reconcile their conflicting projects. In the meantime, the old renegade regime of state-led development has been painfully eroded, exhausted, and finally destroyed.

Notes

1. In 1967, Roberto Campos attempted to increase the rigor of monetary and fiscal policies, but this proved impossible for political reasons. As for 1979, the case in point is Mário Henrique Simonsen's attempt to brake growth in order to alleviate the inflationary process and improve the balance of payments in an extremely adverse conjuncture.

2. The momentum surrounding the arrival of Brazilian manufactured goods in the international arena was reflected in a survey of U.S. businessmen conducted in 1987. When asked to name the country posing the most serious competitive challenge to North American industry, two-thirds of the 250 executives surveyed pointed to "emerging nations such as Brazil, South Korea and Taiwan." Only 29 percent selected Japan, while only 5 percent mentioned Europe. See *Business Week* (1987).

3. For Campos' position, see Associação Comercial de Minas (1964, 87). The intense criticism provoked by the new economic program acquired its strongest form of expression in the Confederação Nacional da Indústria (National Confederation of Industry—CNI); see *Revista Desenvolvimento e Conjuntura Econômica* (1965).

4. The notion of convention or shared belief was developed in Lord Keynes' *Tract on Monetary Reform*, published in 1923, in which the author observes that price stability constitutes more a presupposition, and therefore a "convention," than a historically proven experience. See Cardim de Carvalho (1990) and Ferguson (1975).

5. For the traditional view that state enterprises were created to fill "empty spaces," see Baer and Villela (1973), Suzigan (1976), and Rezende (1987).

6. Simonsen's diagnosis and recommendations are contained in his important pronouncement before the Brazilian Senate on May 31, 1979. See Simonsen (1979).

7. See Antônio Barros de Castro and Fernando Pires de Souza (1985) for a quantitative analysis of the extraordinary improvement of the balance of payments as of 1984. This analysis is extended through 1987 in Barros de Castro and Pires de Souza (1988).

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