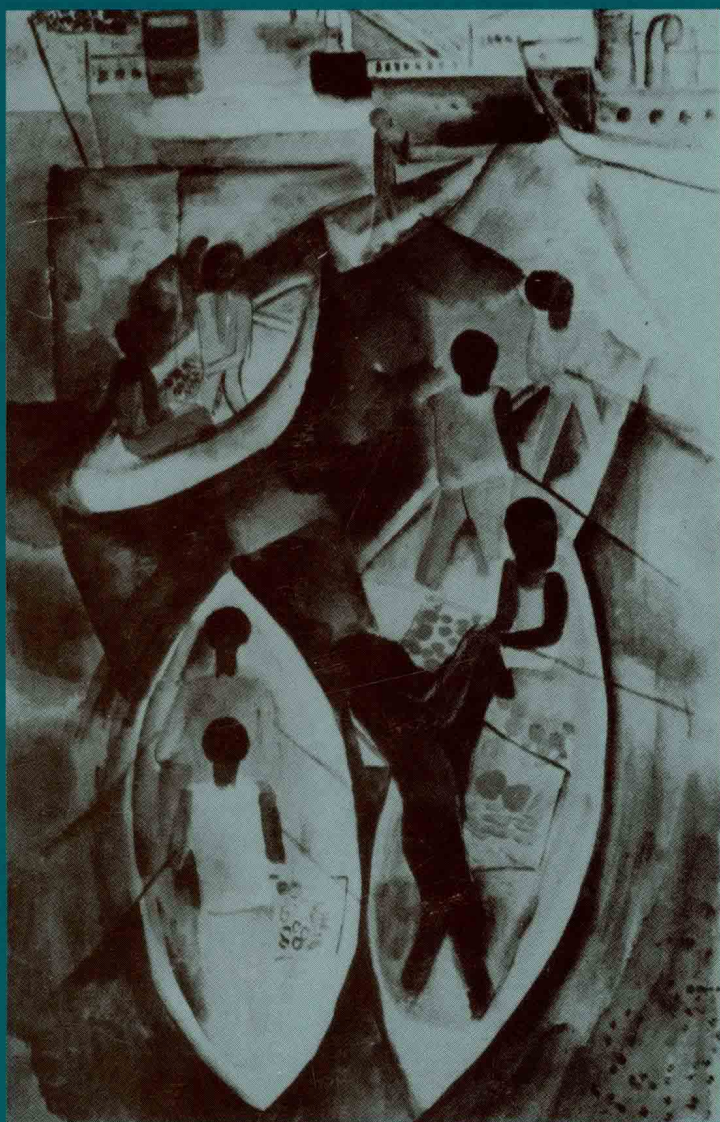


Brazil's Economic and Political Future

edited by Julian M. Chacel,
Pamela S. Falk, and David V. Fleischer



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Foreword: Brazil's Place in the 1980s

Brazil lives by a historic imperative to be a great state. That vision of Brazil's proper place in the community of nations, guarded and tended by the Itamaraty and the military, has only recently been seen clearly by other Brazilians. Most of them have been deeply and self-consciously engaged in the more urgent task of nation-building. At the turn of the century, Euclides da Cunha, author of *Os Sertões*, was shocked to discover the primitive conditions of the Brazilian backlands. Which, he wondered, the coast or the backlands, was the real Brazil? Today, the answer is that both—and all—of the diverse cultural, economic, and political parts of Brazil form a single nation.

Contradictions and dynamic tensions abound in Brazil, and as they operate in the nation-building process they may influence and modify the character of Brazil's role in the world. Nevertheless, certain elements of style and substance have become basic to both domestic and foreign policy, and they are unlikely to be affected appreciably by change of political administration. The basic tenet of Brazilian style appears to be a pragmatic determination to keep the options open; the basic tenet of substance is to avoid dependence, both economic and political.

The process of economic development—one element in nation-building—responds to internal competitive forces as well as to the logic of growth. In the past, the Brazilian states of São Paulo and Minas Gerais have played roles similar to those of Massachusetts and Virginia early in the history of the United States: They have been engines of growth and they have dominated domestic politics. But as economic growth and development in Brazil proceed, the relative strength of these two states will diminish. Income and power are being distributed more equally among the states because the process of development is, largely and purposefully, a process of internal economic integration—nation-building.

The huge state enterprises serve as instruments of national policy in the drive toward economic integration. Monopolistic or dominant in the power, telecommunications, and nonrenewable natural resource industries, they will be used to provide infrastructure for accelerated growth in selected regions.

They serve also to preserve areas of the economy from foreign ownership. It seems to be well established that economic growth and development will not be permitted to compromise nationalism. Although autarky is not a goal, a high degree of economic independence will be maintained. Nor will jobs be purchased with too big a share of the national patrimony. The informatics regulations, for example, protect a significant portion of the computer industry for Brazilian manufacturers, probably retarding growth in job creation and perhaps even slowing economic development. The military's concern for national security is evident here but so too is a political sense of the need to preserve opportunity and profit for Brazilians.

If the process of development through national economic integration is to succeed, the majority of the people must be convinced that opportunity exists and that they can seize it. The rich must believe that their funds are best invested in Brazil, and they as well as managers, professionals, and workers must see a place for themselves in a Brazilian scheme of things. The vast Brazilian hinterland is therefore critically important, especially during periods of economic hardship. Just as in the United States, the idea of a frontier—of geographic areas of economic opportunity—maintains the concept of mobility even for those who do not choose to move. It is a passive relief for frustrations that might otherwise destroy the equable political environment, as important as economic growth to national integration. The transfer of the national capital to the frontier, to Brasília, was an act at the core of nation-building. The very inconvenience of the new location served to stimulate development.

The frontier also provides the government with a flexibility unknown to countries where arable land is in relatively short supply. While the government promotes internal migration to less populated agricultural areas, it has little incentive to disturb land tenure patterns in regions where large holdings and the availability of capital have permitted high-volume exports and impressive resiliency in response to changes in world demand for agricultural exports. The rapid switches to soya and to citrus products in recent years, which earned foreign exchange in excess of coffee losses, are demonstrations of the competence of large-scale agriculture in the more developed states. Large-scale agrarian reform is not necessary and will not be permitted to compromise economic development.

Not even the debt crisis of the past five years has dramatically altered the Brazilian strategy of development; only tactics have been modified. State corporations have not lost their position as the principal engines of growth, but they will be held to higher standards of performance and, most probably, will be limited to more closely defined activities. Some state enterprises—those least related to security or basic national services—will be offered to private investors. Domestic investment will be stimulated, especially in industries with export product potential. Private foreign investment will be encouraged and freed from some of the limitations of the past, but the military institutions—directly or indirectly—will maintain a veto over certain sectors and products that they consider security sensitive. Brazil will continue

to seek foreign investments from countries other than the United States and to export to markets other than the United States, but the weight of that economic relationship will not be diminished easily. Emerging from the period of acute financial distress, intact and politically strengthened, Brazil will play a somewhat different role in the world.

Brazil has graduated from the Third World—even though, as late as 1982, the country did not wish to be removed from the World Bank's soft loan category. Itamaraty will no longer seek leadership among the nonaligned but instead will attempt to position Brazil firmly among the more advanced countries of the Western world. Not even an inclination to serve as spokesperson for the other Portuguese-speaking countries of the world will be allowed to compromise membership in the club of the First World.

En route to the First World, Brazil will certainly not serve as a U.S. surrogate in South America. Brazil must be seen as an emerging world power coincidentally located in the Western Hemisphere. Brazil can be both an important trading partner of the United States and a friendly competitor in world markets, but it will not tolerate political and economic acquiescence to U.S. leadership.

Brazil's position vis-à-vis the other republics of South America appears to be changing. In the past, the country has maintained a certain distance from its continental neighbors, both diplomatically and economically. Until very recently, Brazil has been absorbed in internal economic integration that offered a larger playing field than the other economies would have combined and has therefore shown little interest in continental economic integration movements. Now, after having supplanted Argentina as the major trading country in South America, Brazil has turned an eye to closer economic relations with its neighbors.

The recent historic economic accord with Argentina does not indicate a Brazilian move toward regional hegemony in the traditional sense. Although Brazil would, most certainly, be the managing partner in any association of the Southern Cone countries, its vision encompasses the world, not only South America or the Western Hemisphere. The economic accord with Argentina might better be seen as an extension of Brazil's domestic economic integration process. Brazil needs an even larger home economy to play the world role it believes to be its destiny.

Just as Brazil enjoyed a relatively smooth transition from colony to empire to independent republic, it is emerging from a relatively smooth transition from developing country to one with first-line economic status. Its credentials are impressive: a functioning democracy in a remarkably comfortable multiethnic society that has a cultural identity recognized worldwide and a resilient and resurgent domestic economy now capable of successful exports of sophisticated manufactures as well as diverse agricultural products.

Thus far, Itamaraty has kept Brazil's options open. Trade diversification and sophistication have taken place unhampered by the fetters of ideology and apart from the numerous contractual and consultative groupings of the senior Western democracies. Brazil's position at the apex of debtor countries—

until supplanted by the United States—allowed the country to make needed internal adjustments, seemingly under external pressure but in fact with the indulgence and support of the creditor countries. Brazil is not encumbered by any military alliances except the Rio Treaty, and the country has steadfastly refused to sign nuclear nonproliferation agreements.

In the accord with Argentina, Brazil may very well have signaled a more important step: a willingness to assume a position in the senior councils of the Western world with all the attendant burdens and limitations. It may be appropriate for the United States to sponsor Brazil for the world role that country has so long approached, to draw Brazil into membership in the OECD, the Club of Rome, the Group of Seven, and even the Atlantic Alliance. Sponsorship by the United States should dispel, not confirm, any sense of dependence—Brazil is not a Byelorussian republic. Brazil, like the United States, is a continental power, a democracy with a federal structure forged with a pioneer spirit and, most important, an accommodating multiethnic society.

Russell E. Marks, Jr.

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For this anthology three academic institutions channeled efforts into the analysis of South America's largest political and economic system. My coeditors, Julian M. Chacel and David V. Fleischer, owe thanks to many colleagues and staff at the Getúlio Vargas Foundation in Rio de Janeiro and the University of Brasília in Brasília; I owe thanks to many colleagues at Columbia University. Proper translation was essential, and Ann Garda aptly captured the nuances of Brazilian political culture. Although the sponsorship of the book was an Americas Society project, there are several Columbia University graduate students and staff who assisted the final stages of production. In New York, two graduate students at Columbia University at the time of the book's production, Stephen Gaull and Hugo Presgrave de A. Faria, one of the book's authors, translated several sections.

Because the coordination of the book production took place in New York, the burden rested on the Institute of Latin American and Iberian Studies research coordinator, Gabrielle S. Brussel, the author of the book's bibliography. We are indebted to her skillful, informed, and intelligent reading and managing of the manuscript.

In the production team, many graduate students worked energetically and meticulously to complete sections of the manuscript. Jonathan S. Goldman helped with the difficult task of reducing the length of the volume, and Laura Rich, the Institute's administrative assistant, aided in many aspects of production with the school's team of devoted graduate students, including Pauline Manos, Elizabeth Marazita, and Lisa Markowitz. Most important, the stewardship of Columbia's School of International and Public Affairs Dean Alfred C. Stepan has brought and continues to bring scores of Brazilian scholars, politicians, and business leaders to Columbia, making it a Brazilian-U.S. port-of-call.

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United States-Brazilian relations must, of course be seen within the broader context of relations in the Western Hemisphere and in the world. The need to nurture our ties with Brazil does not imply that we are less concerned with our relations with other nations of the hemisphere.

However, we believe Brazil is important to the United States on its own terms. We believe the United States has a great stake in Brazil's future successes. As it moves toward more open politics and participation, Brazil has been struck by a world economic and financial storm. It is important for the United States that Brazil weather that storm.

The Commission believes this is so because we share a common view of the future. It is a vision of a community of nations, at peace with one another, each committed to the enhancement of the lives of its citizens, and of a world system in which the sums are positive and the benefits of growth are increasingly equitably distributed. Brazil will play an important role in this world system. Our country can contribute to making that role positive and meaningful. It is in our certain interest to do so.

Pamela S. Falk

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Introduction: Brazil's Economic and Political Future

Pamela S. Falk

Brazil's political development in the 1990s will be shaped by the country's economic development choices. Brazil's "miraculous" growth in the 1970s and the expectations that 140 million Brazilians had for its future make Brazil today a symbol of both the benefits and dangers of Latin American development in the twentieth century. The 1980s have not been kind to Brazil, the world's sixth largest nation in population and fifth largest in land area. "By the early 1980s," the 1984 Inter-American Development Bank reported, "it became evident that Brazil would be unable to continue its expansive growth policies of the previous decade."¹ Brazil's debt service has risen from one-third of its exports to two-thirds, severely damaging the country's plans for growth and development. The Brazilian adage, "we look to the future"—an expression borne of its national image as a newly industrializing country—was cited with less certainty as public opinion polls in the late 1980s began to reflect a growing public pessimism about Brazil's ability to manage its overwhelming size and consequent financial dilemmas.

The sheer size of Brazil's economy has been central to Brazil's development as a nation; Brazil's economic health or malaise has been the single most significant contributor to the political reopening or *abertura* and to the role that Brazil's military plays.

This book on Brazil's future is the combined efforts of three institutions and over two dozen scholars, politicians, and business leaders including Brazil's minister of finance, its ambassadors in the United States and to the United Nations, and the authors of the national de-indexation plan, along with distinguished U.S. and Brazilian social scientists.

In Part One of the book the authors outline the phenomenon known as the Brazilian "miracle"—the years of Brazil's industrialization and the diversification of its economy and its exports. But because of enormous borrowing during these years, Brazil's foreign debt burden grew, and at \$110 billion is the largest in the developing world. The section begins with an analysis by Brazil's former Minister of State Planning João Sayad of the

stabilization plan of February 28, 1986, which marked Brazil's first program to fight hyperinflation while it sought to stabilize price levels and reestablish a relative price system within the country. Brazil's former ambassador to the United Nations, Sergio Correa da Costa, addresses the compelling issue of Brazil's relations with the banks in Chapter 2. A member of the Brazilian Academy of Letters, he asserts that "growth is the first, paramount goal without which all the rest is mere fantasy." Brazil, his analysis continues, must create an environment conducive to economic development, one that addresses its domestic needs. Reform and a program of export-led recovery and domestic and balance of payments adjustments are the keys to the proposal outlined in Chapter 3 by Edmar Bacha, a former member of the Brazilian President José Sarney's economic team. Following Bacha's analysis is the examination of Brazil's landmark deindexation plan by its intellectual formulators, André Lara-Resende, an adviser in Brazil's Central Bank and a former investment banker in Brazil's Banco Garantia who testified before the Americas Society's 1983 Western Hemisphere Commission on Public Policy Implications of Foreign Debt and Dr. Persio Arida, a former Ministry of Planning official.

Aimed at reducing inflation, the Cruzado Plan was created, eliminating wage and price controls and creating a new currency. The plan, which was in effect until the Cruzado II Plan was created in January 1987, is analyzed in Chapter 4 with reference to five economic approaches including heterodox and orthodox reforms. The Cruzado Plan is further examined by Hugo Presgrave de A. Faria, a Brazilian graduate student and former trainee at Citibank. His case study analyzes the decisionmaking that yielded the Cruzado Plan on February 28, 1986, and concludes that even with its shortcomings, "the reforms enacted by the Cruzado Plan went beyond the wildest optimistic projections in promoting growth; in fact it engineered an unprecedented consumption explosion." The chapter can be regarded as an integral study of Brazilian decisionmaking and its impact on the elections of November 15, 1986.

Julian Chacel, the book's senior editor, discusses the theoretical aspects of creditor-debtor relationships and domestic growth in Chapter 6. Brazil's political economy and domestic needs are at the heart of the dilemma, and protectionist trends will have damaging effects in both debtor and creditor countries.

Technology plays a central role in Brazil's definition of economic self-reliance. Professor Simon Schwartzman discusses the question of national autonomy and self-determination in "High Technology Versus Self-Reliance." A professor of sociology at the Instituto Universitário de Pesquisas do Rio de Janeiro, Simon Schwartzman taught at Columbia University in 1984 as a visiting Edward Larocque Tinker professor. In Chapter 7 he examines Brazil's control of its national resources by international companies and their local associates particularly in the informatics (computer) industry. His analysis is optimistic about future agreements in the area, a prescient analysis since it was written before the June 1987 Brazilian government regulations

that opened the door to new computer trade with U.S. corporations. "Given appropriate support," he writes, "joint ventures will eventually branch out to both extremes in the computer industry without necessarily destroying the purely national sector which is being developed under the umbrella of market protection."

Commerce and the private sector and their role in development complete Part One with a chapter by Laerte Setubal Filho, the president of the Brazilian Exporters Association. Development may be aided, Setubal argues, by the private sector through official development programs such as the Caribbean Basin Initiative. According to his analysis, two areas must be tapped more deeply: "The social and economic challenges to the 'New Republic' can be met with the understanding and collaboration of the multilateral development banks and the Congress of the United States." On the U.S. side, the former head of the Brazilian-American Chamber of Commerce, Ambassador Frank Devine places the business relationship in the context of the relationship between Washington and Brasília and presents an economic, political, and social view of Brazil and supports the importance of U.S.-Brazilian relations within the context of the new democracy. The final chapter in the section is written by the former head of the Brazilian Trade Bureau, Sérgio Serra. His "view from the South" underscores the importance of trade to Brazil's economic growth, stating "one can but hope that the social and economic importance of U.S.-Brazil trade relations be fully appreciated."

"The Political Structure in the New Brazil" is the framework of Part Two of the anthology, which places the economic development of twentieth-century Brazil in a political framework. Featured in the section is a treatise by Brazil's president, the Honorable José Sarney, which appeared in *Foreign Affairs*. An autobiographical essay, the chapter is a statement of the president's role in the transition to democracy. This is followed by an analysis by the Honorable Fernando Henrique Cardoso, member of the Brazilian Senate and a distinguished social scientist. Senator Cardoso's analysis, based on a lecture before the Senate in Brazil, is a discussion of the Brazilian Democratic Movement Party (PMDB). In a conciliatory spirit he concludes that "we must facilitate the government's ability to accomplish, whether it speaks for us or not, the reforms about which we dream." Continuing the analysis of the interdependence of Brazil's economic growth and its political future, Riordan Roett, the director of the Center for Brazilian Studies at Johns Hopkins University, argues that "a stable democratic Brazil will be better able to assume wider regional responsibilities." His analysis, which reviews the history of the political and economic policies that led to the accumulation of Brazil's debt, sets forth a policy program for a solution that includes monetary reform, a consolidation of spending, and an increase in savings.

Walder de Góes, a Brazilian economist and political scientist, and Marco Maciel, Brazil's former minister of education and former chief of staff, complete the analysis of Brazil's political system with discussions of the military and the political party system with a history of the Liberal Front.

De Góes provides an in-depth history of the role of the military in Brazilian history since the New Republic and scrutinizes its role in Brazil's political transition. He offers the controversial thesis that there have been few changes in the overall influence of the Brazilian military.

In Part Three of the anthology, the actual process of Brazil's transformation is examined, particularly elections and redemocratization. Chapter 16 is written by Brazil's finance minister, Luiz Carlos Bresser Pereira, a professor of economics at the Getúlio Vargas Foundation, one of the three institutions participating in the preparation of the book. The chapter addresses the social pact between business and labor in Brazilian society. It concludes that a broad sweeping change in Brazilian society will be necessary to hold together a heterogeneous society with different economic interests: "It will only be viable if a wider political pact is established among the different social classes, mediated not only by the government but also by the political parties."

Co-editor David Fleischer focuses Part Three on the specific results of Brazil's elections including the political and party alliances, voting plan and the Cruzado Plan, as well as the public perception of the military in Brazilian elections. "Enlightened center-right and center-left civilian political elites," he asserts, "in alliance with 'progressive' military and techno-bureaucrats have taken control of government under the guise of a political 'coalition' with groups on the left who currently do not have better options." Completing the discussion of process, Scott Mainwaring of the University of Notre Dame gives a history of the actual redemocratization of the nation emphasizing the military's loss of power over the presidential succession. In an ominous prediction he asks: "Are there any signs of challenges to this new but listless democracy that emerged from an old, tired transition? Yes—but they are overshadowed by indications that the new regime will be shaped by the continuity that also characterized the transition."

Political parties, women, and the Church are all significant interest groups in Brazilian democracy. The final segment of Part Three focuses on their respective roles. Although Ronald Schneider, director of Latin American Affairs at Queens College in the City of New York, is optimistic that a competitive party system will be achieved, he cautions that the road is not easy and success not inevitable. "Women's participation in politics can only be effectively understood," argues Eva Alterman Blay, professor of sociology at the University of São Paulo, "if new categories and theoretical areas are defined in order to be able to analyze their participation." Blay outlines those areas and recommends a plan for action within the Brazilian political system. Brazil's Church and some of its teachings, particularly "Liberation Theology," have had a dramatic worldwide impact. Thomas Bruneau, political scientist at McGill University in Montreal, investigates the participation of the Church in Brazil's constitutional change and in the escalating violence centered around agrarian development.

Part Four completes the comprehensive discussion of Brazil's political and economic future with a discussion of Brazil's foreign policy and foreign

relations, including chapters by José Carlos Brandi Aleixo from the University of Brasília, who paints a picture of Brazil's foreign policy as viewed by the late President-elect Tancredo Neves and interpreted by the Honorable José Sarney, as a policy of "diplomacy for results" that is moderate in style, austere in the administration of public funds, sensitive to citizen's rights, creative, flexible, and realistic in the "promotion of legitimate national interests."

Featured in this part is a chapter by Brazil's former minister of foreign relations, Olavo Egydio Setubal, who reviews Brazil's foreign relations with the United States, the USSR, the Middle East, and European nations. On the U.S. perspective, former ambassador of the United States to Brazil, Diego Asencio describes the relationship between Brazil and the United States as "friendly competitors." "Points of friction," he argues, "will remain as is normal between sovereign nations, but these pale beside the evidence of cooperation." Finally, a second foreign minister of the Brazilian Republic, Ramiro Saraiva Guerreiro, points the reader back to the bilateral relationship between Brazil and the United States, nations "with two different ways of confronting reality, which are not necessarily mutually exclusive."

Notes

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