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## Sixty Years of Populism in Brazil

Paulo Rabello de Castro and Marcio Ronci

### 6.1 Introduction

Populism is a form of political conduct, adopted by a person or a group of people, that may be identified by the use of economic tools and other means designed to produce favorable results quickly, regardless of how short-lived they may be, in so much as these actions are instrumental to acquire and maintain authoritarian power.

Under this definition it can be said that, while populism is less than a political system proper, it nevertheless represents more than mere demagoguery. Populism is in fact more than just political promises; the populist leader will actually try to deliver them. There are two words key to understanding populism: *instability* and *discontent*. Let us begin with the former. When the political system qualifies as a stable one, there is hardly any room for populism. Whether democratic or autocratic, a stable political system will tend to restrict populist behavior. That is why one cannot rightly refer to occasional demagogic actions of a politician in a consolidated democracy as populism. These activities would lack the systematic character of populist conduct.

It might also be confusing to refer to socialist dictatorships as populist, not only because the ruling party is firmly entrenched in power but also because most of their social and economic policies are not designed for immediate results but, on the contrary, only envisage an “officially determined long run.”

It is political (and economic) instability that creates the right momentum for the populist appeal. The political system must be vulnerable and fragile to provide a basis for the growth and expansion of populism.

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The other element is discontent. Very quick social transformations are a sure source of discontent, as is a fairly long period of stagnation. Furthermore, unequal wealth and income distribution also play an important role, especially if accumulation is understood to have taken place at the expense of the majority of the people.

One may argue, however, that if discontent could be channeled through a democratic representation there would be hardly any room left for populism. Discontent without representation tends to generate disenchantment, and people become more vulnerable to a solution in the realm of magic. Populism is a way of bringing back hope for those who feel misrepresented in society. Thus populism is fostered with more ingredients than just the manipulation of economic tools.

There is clearly a political relationship between the populist ruler, his group, and their represented sectors, thereby establishing an alternative legitimacy to his (or their) authoritarian deeds. So populism is not just demagoguery. It is rather political activism in search of power. This is precisely the ultimate characteristic of populism—the struggle on the part of the activist group to acquire and maintain more power. Given political instability as a prerequisite, populism is not compatible with democracy; every political blank must be filled by the populist in search of consolidating his own authority (or that of his group) and not the authority of the democratic regime itself. In essence, every populist draws on authoritarianism. Nevertheless, in its current practice, populism may show itself in the form of numerous middle-of-the-road situations that defy the analytical spirit of an attentive observer.

Despite the obvious difficulties of determining a more generic or universal definition for the phenomenon, a case-by-case study of populism only becomes meaningful if the theoretical concept of populism is previously established. In that sense, the mere detection of the wrong economic policies does not qualify those policies as a story of populism; on the other hand, there are quite a few experiences of populism that have achieved fairly good success for quite some time before their structural misdoings finally showed up.

The political elements of discontent and instability are the key factors that seem to be at the core of populism, for which reason the aspects of power struggle and domination tend to offset the contours of an “economic” populism so defined. Otherwise the economist’s view of an essentially political phenomenon may end up dragging him to the extreme of labeling every failed growth policy or distributive action as populist. In other words, not every dictator is a populist and, surely, not every populist is a dictator; however, every authoritarian ruler does *lean toward* populism whenever challenged by political instability. On the other hand, not every distributive or income policy has to be a populist one, although there is no populism without actions designed to placate discontent.

This paper holds a view that objects to the argument that politicians only

undertake populist actions because of social pressures. According to the prevailing approach, unequal income distribution and widespread poverty press politicians toward emphasizing growth and income distribution with no regard to other restrictions, such as inflation, deficit finance, and balance of payments equilibrium (see e.g., Sachs 1989 and Dornbusch and Edwards 1989). Accordingly, politicians are basically naive in their purposes or, worse yet, they are “victims” of circumstance. The opposite view argues that the populist leader carries out careful political calculations for each of his actions and uses economic policies as a means to reach his objectives. Besides, depending on the brand of populism, populist policies do not necessarily end up thorough failures.

In the remaining sections of this paper we will go over the contemporary history of Brazil for the past 60 years and try to frame populism as a form of political conduct. Economic tools used in those periods will be pointed out, and their economic consequences will be briefly discussed. In so doing, our main task will be to try to validate our tentative definition of the term “populism” in light of the recent Brazilian experience.

## **6.2 Revisiting Vargas: Classic Populism, 1930–54**

The contribution of Getúlio Dornelles Vargas to the consolidation of a populist tradition in Brazilian politics cannot by any means be underestimated. Vargas’s political conduct represents what one would call a classic approach to the use of economic and noneconomic tools to produce the best results for the acquisition and maintenance of authoritarian power. Vargas was a dictator for eight years (1937–45) but that is not what makes him a classic populist. It is rather the manipulation of power mechanisms in order to influence public opinion in favor of his centralizing authority that qualifies his entire period as a populist one.

Vargas had been a discreet and rather orthodox minister of finance in the late 1920s, serving dutifully under the man he eventually overthrew from power at the turn of the decade. The 1930 revolution brings the voice of the people into the political scene for the first time in contemporary Brazil. There was enough discontent among the emerging proletariat by 1930 to create a demand for a popular leader. People were tired of the Republican aristocrats from the states of Minas Gerais and São Paulo who had been alternating power since the overthrow of the emperor in 1889. Political instability completed the scene. The 1930 revolution had broken up the old regime and brought forward a group of “young lieutenants”—mostly military—that lined up in favor of a new protectionist rule to promote domestic industries and to foster the urbanization of a then vastly rural Brazil (70% of the people in the fields as compared to 30% in the cities by 1930).

The Vargas era and the relationship of the ruling man with politics and

economics clearly demonstrates that *classic populism* does not go overboard in terms of short-run economic policy. In other words, the classic populist is the one who indeed knows that the economy has to be run under a budget constraint and that it has a hard currency reserve limit to compel it back toward its own boundaries. That was absolutely perceived by Vargas, he himself having once been a finance minister.

During his first period in power (1930–45), Vargas had to cope with huge political and economic pressures. After a brief period as provisional president, Vargas was elected for a 1934–38 term. He had to fight a counterrevolution in 1932, beating the *paulistas* but placating them with a protectionist industrial policy. Worldwide, the Great Depression incubated fascism and Nazism. Meanwhile, communism was on its way up. Inside Brazilian borders, the new regime made its first attempts to crack up the political bones of the coffee-growing aristocracy—a task made easy by the collapse of coffee prices—and, at the same time, the new regime stretched itself to manage the unmanageable by standing in the middle of *integralistas* (the domestic version of fascism) and *comunistas*.

Vargas led a coup on 10 November 1937, closing the Congress and imposing himself as ruler. He dressed up his actions with a lot of grandiose designs that were summarized by the expression “Estado Nôvo,” or “the new state.” A new constitution was written under the influence of the powerful Francisco Campos, who promoted a totalitarian and nationalistic philosophy for Brazil. According to him, “centuries of experience have demonstrated that the principle of liberty did not improve the lot of the average citizen or keep the strong from taking advantage of the weak. Only a strong state can guarantee to the individual the rights he ought to have” (Dulles 1967, pp. 174–75). Under the 1937 constitution, the nationalization of mines, sources of energy, banks, insurance companies, and basic and essential industries were to be regulated by law.

On the external front, the Great Depression (1929) hit the country hard, as the price of coffee, the main export, fell sharply. Vargas’s government reacted buying part of the coffee production and so avoiding the reduction of domestic demand (see Skidmore 1976, p. 66, and Furtado 1976). All servicing of foreign debts was suspended. With regard to the exchange policy, official devaluations more than offset the rate of increase of prices in Brazil until 1939, while it did not change much during the Second World War, even though inflation in Brazil was greater than in North America. The overvaluation of the exchange during the war made up for the real devaluation of the previous decade (Goldsmith 1986, pp. 186–89).

The monetary policy was, in general, loose in 1932–37 (with a brief contraction in 1933), which pushed the recovery of the economy after 1932. The inflation rate was relatively low, around 10% a year. After 1941, the money expansion became very loose to finance the war effort, so inflation stepped up.

The war experience showed the need for an active monetary policy, which resulted in the creation of SUMOC in 1945, an embryo of the Central Bank.<sup>1</sup>

In his first period in power, Vargas also laid down the foundations of the interventionist model. In 1933, the Brazilian Coffee Institute (IBC) was created and would dominate all the coffee matters in Brazil for the next 55 years. A similar organization—*Instituto do Acucar e do Alcool* (IAA)—was set to prevail over the sugar industry, from production to final marketing. The Ministry of Finance, under Artur de Souza Costa began to articulate the centralization of policy-making in Brazil. In the early 1930s, the Social Security Institutes were created to offer medical assistance and welfare protection (old-age retirement and pensions) to the working classes. All were under federal control. The government also gave incentives to the formation of workers' unions, provided that they were approved under the newly installed Ministry of Labor, headed by the articulate and dynamic Lindolpho Collor, grandfather of Fernando Collor de Melo, now president of Brazil.

Vargas stood in power until 1945 when World War II was over. By then, the foundations of a strong and pervasive state had already been laid down. After an interim presidency (by Vargas's former Minister Eurico Dutra) between 1946 and 1949, the former dictator came back to power as a democratically elected president in 1950. It goes to show that a classical populist's political platform is often long-lasting.

During his second period in power (1951–54), Vargas tried to achieve an impossible balance between the external restriction, inflation, and his investment strategy. He sought to work under the rules of the international system and accepted foreign collaboration to finance his investment plan (e.g., the Brazil-USA commission of 1951–53). In 1953, he adopted a more flexible exchange rate policy. These gestures helped to convince foreign investors and international institutions that he was prepared to keep a policy of external balance.<sup>2</sup> On the other hand, Vargas appealed frequently to the people's nationalistic and xenophobic sentiments and channeled investments through state companies in order to satisfy the opposition (Skidmore 1976, p. 128). At the end of 1952, the balance of payments situation and inflation had become critical. Vargas again showed understanding of the limits of his populism. In August 1954, he reshuffled his cabinet and adopted a quite orthodox stabilization program under the supervision of one of his most competent collaborators, Oswaldo Aranha.<sup>3</sup> The plan was not carried out by Aranha himself because of a political crisis that came to an end with Vargas's suicide.

1. For an account of the monetary policy in the period 1930–45, see Neuhaus (1975, pp. 128–29).

2. See Skidmore (1976, p. 124). For an account of the exchange rate policy, see Goldsmith (1986, p. 251).

3. See Skidmore (1976, p. 151). The Aranha stabilization program would be put into effect by Eugenio Gudín, who mentioned it in his speech when he took office at the Ministry of Finance.

Vargas committed suicide in the midst of a sea of accusations against his government's moral conduct. That last gesture was to give him a political afterlife for another 10 years. Vargas's farewell message, written right before he put a bullet through his heart, contains all the vital elements of classic populism in Brazil:

Domination and plunder on the part of international and financial groups, . . . The excess-profits law was held up by Congress, . . . Hatreds . . . against the just revision of minimum wages. . . . National freedom . . . by means of Petrobrás, . . . Electrobrás was obstructed; . . . They do not want the worker to be free; . . . Profits of foreign companies were reaching as much as 500 percent per annum; . . . Came the coffee crisis . . . we tried to defend its price and the reply was such violent pressure. . . . I fought against the spoliation of Brazil. . . . Now I offer my death. (Dulles 1967, pp. 334–35)

For the entire 15-year period of his first term—as provisional and constitutional president and then as a dictator, from 1930 to 1945—and again during the short period of his second and last term as elected president from 1950 to 1954, Vargas never disregarded the aspect of short-run macroeconomic equilibrium as it can be shown by the average data related to those periods. As we can see in the table 6.1, real gross domestic product (GDP) grew an average of 4.4% a year in the first of Vargas's periods and 6% in his second period; these are good records, particularly if we bear in mind that during his first period he had to maneuver the economy through a world recession, a civil war, and, then, a world war. As regard to inflation, the average price increase was 6.7% a year in Vargas's first period and 17% a year in his second period. External accounts were in surplus in his first period and experienced a deterior-

**Table 6.1** Main Macroeconomic Indicators of the Brazilian Economy (Average Values of the Period)

Stages of Populism	Real GDP (1)	Nominal Wages (2)	Inflation (3)	Money		Trade Balance (6)	Current Account (7)
				M1 (4)	M2 (5)		
Vargas's first term (1931–45)	4.41	—	6.75	14.46	13.39	7.18	2.47
Vargas's second term (1951–54)	6.18	18.09	17.15	20.56	18.04	.97	-3.43
Kubitschek (1956–60)	8.23	26.15	20.13	25.61	23.72	1.45	-1.36
Goulart (1961–63)	5.27	46.36	54.40	48.85	47.34	.24	-1.22
Castelo Branco (1964–67)	4.18	56.27	53.13	62.61	61.95	1.82	.41
Médici/Geisel (1968–78)	9.14	29.62	29.58	40.56	45.06	-.96	-3.54
Figueiredo (1979–84)	2.38	107.23	119.25	84.94	105.90	.94	-4.22
Samery (1985–89)	4.64	528.00	515.62	435.62	412.44	4.14	-0.16

Sources: See appendix A.

Note: Cols. 1–5 are annual percentage growth rates; cols. 6–7 are percentage shares of GDP.

ration in his second term in office. Vargas had been trying to cope with inflation and external imbalances in 1954 when he was cut off by a political crisis which ended in tragedy. Nevertheless, he was a downright populist in the sense of using *noneconomic* tools to his best advantage and in order to achieve and maintain some kind of authoritarian power. Such tools would finally include his own death as a last resort.

The lessons to be drawn from the Vargas period help to clarify the intersection between populism and economics. First of all, the populist's mind has the unavoidable tendency to promote *the centralization of economic power*. That, in turn, leads the economy toward nationalization and excessive regulation of private activities. In fact, it was Vargas who laid down the foundations for all the subsequent expansion of the state as an entrepreneur: Petrobrás, Eletrobrás, the steel corporations (several of them, starting with Companhia Siderurgica Nacional), the mining company Vale do Rio Doce—all these giants, that would later reproduce themselves into many other companies, were created under Vargas's inspiration.<sup>4</sup>

Those huge corporations implied the establishment of a complex network of private interests that permeated the whole economy. The private sector under the public corporations' umbrella would incorporate their motto in favor of permanent government control. That, in turn, would determine the official manipulation of the so-called strategic prices, thus persuading the public to believe the fallacy that "important" prices, like those of gas, oil, steel, sugar and wheat, could not be set up under market conditions.

Such a heritage of economic interventionism is absolutely more relevant in explaining the Brazilian populist experience than the occasional propensity toward inflationary policies or the balance of payments crises. The structural distortions generated by outright intervention and excessive regulation would eventually provoke stagflation in the late 1970s and throughout the 1980s. Nevertheless, that only came along after a fairly long period of time. In the meantime, the apparent results seemed to be quite favorable because of the effects of centralized economic decision making.

The second important heritage of populism that comes with nationalization and regulation is what we may call *institutional underdevelopment*. It may sound like a paradox that such extensive centralization of decision making and the multiplication of government agencies to control the economy would not entail the development of sound institutions that are characteristic of liberal democratic countries. The explanation for that apparent paradox can be found in the authoritarian nature of populism, and that is precisely why there is no such a thing as democratic populism. The search for power and the struggle to keep it under a populist rule produces the disruption of traditions that is so important in forming the nature of public institutions and agencies. In other

4. For an account of Vargas's interventionist policies during the period 1930–45, see Skidmore (1976, pp. 66–67) and Baer (1983, pp. 16–28).



words, under populism such institutions and agencies exist to serve the ruler's intentions and not the other way around.

Take, for instance, the Central Bank. The idea of creating an independent Central Bank in Brazil dates back to the 1920s. In the late 1930s, the U.S. government tried to influence Brazil in the same direction, by conditioning certain refinancing clauses of the country's external debts to such institutional developments sought by the Brazilian negotiator, Oswaldo Aranha. It was a useless attempt. The Brazilian Central Reserve Bank was never established (see Dulles 1967, pp. 203–4). At the end of the Second World War, as the inflationary pressures increased, a governmental agency, SUMOC, was set up to control the monetary policy; however, it had limited powers. Vargas understood well the need for an independent Central Bank to fight inflation, but he could not go so far as to create one because it would limit his powers. A third attempt was to be carried out in the 1960s, but the result was another failure.

Summing up, Brazil owes to populism much of its best and worst moments when we look into the subsequent acts of its recent history. Classic populism was pretty abiding to the limits of fiscal and external budgets, and one can even praise its first movements in terms of centralizing economic power, which did fulfil a vacuum of decision making in a historical period when every nation was fighting the Depression, then coping with a world war, and finally recovering from the war effects under the prevailing academic tutorship of Lord Keynes and his followers, who, by all means, advocated a widening of government's intervention in the economy. In that sense, populism in the 1930s, all the way through the 1950s, was a very clever political adaptation of some less-developed countries to the current tides of that time. The sequels thereof have to be understood in that perspective.

### 6.3 Three Decades between Conservatives and Populists: 1954–84

In the 30 years' time that elapsed from Vargas's death (24 August 1954) to the return of a civilian rule (15 November 1984), Brazil has oscillated between populism and conservatism, and has sometimes experienced an inextricable mix of both. The main trend, however, can be said to have remained a populist one, basically faithful to the foundations that Vargas laid down. The role of conservatives can be identified as being rather transitory *reformist intermezzos*, which were nonetheless powerful enough to reform and strengthen the interventionist model without being able to transform it into a free market one. This is where the controversy about the role of those reformist intermezzos is centered. There is still much confusion between the liberal intentions of the so-called reformists and the effective results of their policies, which were not able to revert the main structure of state interventionism inherited from the Vargas period.<sup>5</sup>

5. *Liberal* is employed in this essay in the radical sense of political liberalism in the European tradition, not in the rather opposite American use of the term.

It is through those episodes of economic rationality that the old regime managed to survive until the 1980s, showing a fairly good economic performance, although increasingly inflationary, for most of those three decades. The first reformist intermezzo took place in the short period of eight months between August 1954 and April 1955, when Eugenio Gudin, a lonely liberal, took office at the Ministry of Finance. The second intermezzo lasted longer: that was between April 1964 and March 1967, when the team Roberto Campos-Octavio Bulhões conducted the Brazilian economy under the first military period after Vargas. General Castelo Branco was the President. Despite every reasonable doubt, we may refer to a third intermezzo between February 1983 and November 1984, when the team led by Delfim Netto finally gave in to the international evidence and adjusted the country's balance of payments following the 1983 exchange devaluation.

During the first reformist intermezzo, Gudin brought about a tightening of monetary controls during the short period he stayed in office: the average monthly expansion of M1, in Gudin's period, was 1.44%, as compared to the 2.86% monthly growth in the preceding period, while the monthly inflation rates dropped from an average of 1.95% to 0.94%.<sup>6</sup> His intentions, however, were actually centered on a free exchange market that he envisaged for the country. Whether or not he realized it, he attacked the interventionist model at its most important pillar: the official control of the exchange rate. Of course, he was never able to accomplish his goal. He did, however, manage to pass Instruction no. 113, which permitted the import of investment goods without exchange coverage. That amounted, in other words, to enable importers of industrial equipment—Brazilians and foreign firms—to update their plants and even install new ones at an effective exchange rate that was neither the official nor the black market one.<sup>7</sup>

What followed Gudin's brief stay as Minister of Finance was a very interesting experience in terms of our definition of populism: the Juscelino Kubitschek administration (1956–60). Kubitschek's concern with development was explicitly embodied in his Targets Program. This was not a global planning of the economy. It did not cover all basic industries. Investments in infrastructure were directed to eliminate bottlenecks, and, in many cases, projects that had been prepared by the earlier Brazil-USA Commission (1951–53) were then used. In terms of basic industries, the objective was to give incentives to sectors such as metallurgy, cement, chemicals, heavy mechanics, shipbuilding, and the automobile industry. He built a new capital—Brasília—as a symbol of his government.<sup>8</sup> He wisely took advantage of Gudin's Instruction no. 113, which gave an incentive for foreign companies to invest in Brazil. In the 1956–60 period the Brazilian economy achieved high growth rates. The country's GDP expanded 8% a year, on average. This was the result of a policy of

6. For an account of Gudin as a finance minister, see Bulhões (1979, pp. 79–89).

7. On Gudin's views on exchange rate policy, see Gudin (1978a, pp. 84–87, 107–8).

8. For an examination of Kubitschek's Target Plan, see Lessa (1983, pp. 27–91) and Benevides (1979, pp. 224–33).

industrialization at any cost, protected by heavy custom duties and currency exchange incentives and large public investments. However, in 1958, the inflationary pressures were evident, and the government made an attempt to stabilize the economy under the command of Lucas Lopes and Roberto Campos. The government, however, soon abandoned the program and had to break up with the IMF (see Skidmore 1976, 218–19).

Kubitschek's economic policies were certainly expansionary. His political target was to make Brazil's "50 years in five." He drove close to a balance of payments crisis and publicly rejected the IMF's recipe when the international community tried to make him swallow it. Was he a populist? If so it was not because of those actions. Although the economic repercussions of his period may have led to some public discontent and political instability, Kubitschek's performance was clearly democratic. His mandate was a regular one, and he handed over the presidency to the man who had opposed him fiercely during the 1960 campaign. His economic targets were set in the long run and certainly provoked short-run imbalances, which horrified some conservatives. But they were never placed in the direction of acquiring or maintaining some form of authoritarian power.<sup>9</sup>

The same cannot be said with such assurance about the two presidents who came into power after Kubitschek. Jânio Quadros, the first of the two, was a champion of popularity at the time he was elected. He could deal with the passion of the masses in a way that had not been seen in Brazilian politics since Vargas.

However, following a very short period of eight months in office, Quadros abruptly handed his resignation to Congress. Historians argue that his actual intention was to be reinstated "in the arms of the people" with enough power to carry out the "reforms" that had been constantly obstructed by a reactionary Congress. But the people remained apathetic. The elements of discontent and of political instability were right there. What ensued can be traced back to the old Vargas style of populism and was enacted by none other than his closest political heir, who happened to be right on the scene: incumbent vice president João Goulart.

For the first time, the populist group that stepped in did not know enough about the limits of the fiscal budget and the exchange reserves. The political attitudes were "revolutionary"—which shook the conservative minds that were already used to populist manipulations—enough to placate the people's discontent but not to the point of letting the government believe in them. That single experience of populism under a leftist influence in Brazil clearly shows us the central difference between classic populism and the variant form carried out by "well-intentioned" leftists. The difference is that the latter does not know the limits of the balance of payments.<sup>10</sup> The features of Goulart's popu-

9. This view is shared by Benevides (1979).

10. For an account of the economic policies undertaken in this period, see Skidmore (1976, pp. 285–97, 325–31).

lism fit nicely into the description of a conventional mishandling of economic tools.

The most important lesson to be drawn from the Goulart period is that his populism did not have to be the way it came out. There is no evidence of any particularly serious deterioration of the Brazilian terms of trade, as often alleged by “structuralists” during that time, or any domestic setback such as that brought about by a bad crop.<sup>11</sup> It is also quite worth observing that *leftist populism* is infinitely less efficient than the classic one in terms of overtaking and keeping authoritarian power. Eventually, João Goulart and his group were all overthrown by a military coup supported by the conservative elite, an act easily accepted by the public opinion. Thus the economic heritage of that period is rather poor in the sense that leftist populism was not able to project its impact into the future by means of lasting institutions.

After Goulart’s departure, in April 1964, the Castelo Branco administration (1964–67) formulated a short-run policy program (Government Economic Operation Program, or PAEG), whose main goals were to control inflation and correct the distortions inherited from state intervention in the economy. Severe measures were adopted, such as cuts in government expenditures, the elimination of subsidies, a squeeze in private credit, and wage controls. The new administration also carried out a successful tax reform, which greatly increased tax revenues.<sup>12</sup>

The crucial aspect of this period is the objectives that were not achieved rather than the ones that were eventually reached. The frustration of certain goals represents the dividing line between conservatism and liberalism in Brazil. The latter was never experienced at any time. Conservatism, on the other hand, is a form of political conduct that will not reject certain means employed by populists. In that sense, although it cannot be said that classic populism ensued from the second reformist intermezzo, it is certainly not wrong to say that conservatism inherited from populism some important characteristics, namely, the official doctrine of “security and development,” according to which the maintenance of authoritarian power is justified to the extent that the government’s economic performance is successful. This aspect would become very clear later, under the Medici period, when the interventionist model reached its “golden age.”

During Castelo Branco’s administration, there were a number of liberal ideas that unfortunately were not carried out. The first was that of an independent Central Bank. The legislation was actually produced, but the facts overrode the ink on the paper. Soon after Castelo Branco left in 1967, the Central Bank had a confrontation with General Costa e Silva who had succeeded Castelo Branco; the final result goes without saying.

11. On CEPAL’s structuralist view, see Campos (1979, pp. 142–48).

12. A summary of Castelo Branco’s economic policies can be found in Simonsen (1974, pp. 39–40). For a more detailed account, see Skidmore (1988, pp. 68–77, 116–17) and Vjana Filho (1975, pp. 128–79, 208–38).

The second important point relates to the exchange rate liberalization. Roberto Campos, the planning minister, tried to free it, but again the "national interests" prevented the continuation of that experiment. A third area of conflict relates to the procedure used to set the prices of public utilities and of oil by-products, in particular. The price-setting process has never been made flexible. Despite Campos' firm attempts to break those monopolies, the bureaucracy would not renounce the right to intervene to equalize regional differences and impose an income policy through strategic prices.

That second *intermezzo*, however successful it was in protracting the life of the interventionist structure, could never achieve its reversal toward the free market as long as it remained under conservative influence, to the silent frustration of the liberal architects, Campos and Bulhões, who would have liked to reverse that model entirely. In hindsight, the times were not ripe for that change. Another three decades would have to pass in order to achieve that transformation.

Right after the Campos-Bulhões team, the *paulistas* took over under the firm leadership of Antônio Delfim Netto during Costa e Silva's and Médici's governments (1968–73). Delfim's greatest merits lie in the fact that he managed to neutralize the exchange rate deadlock by introducing crawling peg devaluations. In so doing, during a period of continuous expansion of world trade, he managed to ride the wave of progress by driving the Brazilian industry toward exports as a complement to the growing domestic market. The 1968–73 period contrasts with the years of economic slowdown, 1962–67. The Brazilian GDP grew at an average of 10% a year.

On the sinful side, Delfim Netto must take the blame for the legislation that erased the servicing of internal debt from the Treasury's budget, thus letting the rollover of domestic debt fall under the responsibility of the Central Bank. That was the beginning of endogenous money creation in Brazil, which, coupled to indexation, finally led to the hyperinflationary bias that is borne by the economy today. Another negative outcome of this period was the expansion of the productive activities of the public sector.<sup>13</sup> Despite the investment of state companies being one big source of growth in the 1968–73 period, the majority of state corporations were not operated under efficiency criteria, and, as a consequence, their investments resulted in low capital productivity, which would negatively affect the potential growth of the economy later on.<sup>14</sup>

In 1973, when the oil crisis broke out, Delfim avoided an exchange devaluation. After he stepped down, the economy came into the hands of Mario Henrique Simonsen, whose elbow room for reform was quite narrow given the political style of the new president, Ernesto Geisel. After 1973, the Geisel

13. For an account of Delfim Netto's policies, see Skidmore (1988, pp. 181–89, 274–86) and Baer (1983, pp. 242–45).

14. The various negative effects of the state's intervention in the economy during this period are discussed in Martone (1985) and Suzigan (1988). The expansion of state companies is also well documented and criticized in Gudin (1978a, pp. 405–37; 1978b, pp. 261–82).

administration (1974–79) sought a policy of accommodation in order to preserve real GNP at the expense of a rise in inflation. The government undertook an ambitious investment program with its state companies after 1975, which reached its peak in 1979. This program was mainly directed toward the production of energy (the building of power plants, oil mining, and the production of alcohol as an alternative fuel) and a second round of import substitution (heavy engineering, fertilizers, and metallurgy of nonferrous metals). In order to finance this program it was necessary to borrow heavily both from abroad and in the domestic market. The government's deficit as a percentage of GDP grew from 1.4% in 1974 to 13.1% in 1979 (see Marques 1985, p. 361). Inflation rose from 15% a year in 1973 to 40% in 1979. In spite of the visible effects of the oil crisis, the Geisel administration simply did everything to avoid a real devaluation.<sup>15</sup>

This period of a "stepped-up march" revived old aspects of classic populism.<sup>16</sup> The main figure of the popular ruler was not there, but the interventionist policies to secure the dominance of the state certainly were. Geisel had been close to Vargas since the beginning. His presence in the Brazilian politics dates back to the lieutenants' time in the 1920s. He had been one of them. His policies could not be much different. So, it has to be reckoned that a mix of conservatism and populism were again present in that period. The military, as a whole, acted as a searching authoritarian power, although not any one of them in particular.

In 1979, the Figueiredo administration (1979–84) was faced with: a huge external debt, the servicing of which consumed 67% of export revenues; the second oil crisis, as a consequence of the Iranian situation; and the impact of rising interest rates. In December 1979 the government adopted the following measures to cope with the increasing disorder in the economy: it put in place a 30% devaluation; it eliminated many tax exemptions; it increased tariffs of public services; it reduced the tax on interest sent abroad from 12.5% to 1.5% to stimulate borrowing from abroad; and it introduced a new wage bill, which reduced the period of adjusting wages from one year to six months. However, right after announcing these measures, early in 1980 the government made the fatal mistake of fixing beforehand the exchange rate devaluation for the whole year at 40% and indexing contracts at a limit of 45%. It also strengthened price controls. The government also planned to limit credit expansion to 45% for that year (see Baer 1983, pp. 414–15). However, actual credit expansion was a great deal above the target (79%), the wage bill contributed to increased industrial costs, and price controls were not effective. As a consequence of this boost of aggregate real demand, GDP grew 7.9% and inflation rose from 77% in the previous year to 110% in 1980. The improvement in export com-

15. Alternatives to devaluation were a 100% compulsory deposit on imports, and fiscal and credit subsidies to exports.

16. The expression, "stepped-up march," was coined by Antônio Barros de Castro (1985) in his book on that period.

petitiveness due to the devaluation that had occurred in December 1979 was completely lost, because the prefixed devaluation fell short of inflation during 1980 (Baer 1983, p. 417).

After the disastrous experience of 1980, a third reforming intermezzo began. Figueiredo changed course toward more orthodox policies. Monetary policy was tightened in 1981, and, after the outbreak of the international debt crisis in 1982, the exchange rate was devalued again by 30% in February 1983 while a new wage bill was passed in order to control wage increases. Agreements with the IMF were signed, but all too often the targets for public deficits and monetary expansion were missed. Figueiredo succeeded in balancing the external accounts, raising international reserves, and cutting subsidies and government expenditures, and inflation nevertheless leveled off at 200% a year.

The third intermezzo only started making sense in 1983, through the exchange devaluation carried out by Delfim Netto, the same man who would not do it 10 years before, at the beginning of the first oil crisis. This third intermezzo, under a very clear conservative influence, was just enough to keep the country's finances afloat until the November presidential elections of 1984.

Summing up, the macroeconomic indicators (see table 6.1) show that there were two periods of fast growth, namely the Kubitschek and Médici-Geisel periods after 1954, when the average growth rates of real GDP were 8% and 9% a year, respectively. These two periods were preceded by reforming intermezzos—Gudin's and Campos-Bulhões's—which checked inflation and external imbalances. After 1978, however, the growth and inflation performance became increasingly poorer. In Figueiredo's period, the GDP average growth fell to 2% a year and inflation rose to 120% a year on average. The picture we get from the whole 1954–84 period is clearly one of an economy under increasing strain, with growing inflation, external imbalances, and falling growth rates. The interventionist model inherited from Vargas gradually shows all its damaging effects on the economy. The reforming intermezzos stretched the model's life without managing to alter its regulatory nature.

#### **6.4 Notes on Aging Populism: 1985–90**

Both conservatives and populists have taken advantage of the interventionist model created and developed by Vargas's heritage. Both of them have used the means of an authoritarian power to control the economy and affect the market forces to the benefit of their distributive purposes. Through different policies, conservatives and populists have showed evidence of their disbelief in market forces as a correct way to achieve higher productivity, better wages, and fairer distribution of income and wealth. We cannot seriously deny the fact that they have almost operated together during the last three decades of Brazilian politics.

This apparently contradictory picture became clear after the *abertura*.<sup>17</sup> By 1984, the opposition was ready to take over the power from the army. So they acted with Tancredo Neves—an aging moderate politician—who died before his inauguration. José Sarney, an odd vice president of a last-minute political coalition, took over in Tancredo's place.

Through his five years in office, Sarney was a political hostage of the groups from which he had borrowed support. His team was not settled; he had to negotiate it. A new constitution (1988) was to be written up. Such a political set up, permeated by discontent and instability provided fertile soil for the resurgence of populism.

In what sense does populism in the 1980s differ from classic populism? The answer is that classic populism in Brazil was so well absorbed by the ruling elite that it could be identified, through the 1960s and 1970s, with the conservatives rather than with the so-called leftists or “progressivists.” In fact, the conservatives have tried to preserve (i.e., to conserve) the existing structure of the interventionist model laid out by Vargas. That model had been a “miracle worker” for Brazil for so many years that the ruling elite developed all sorts of vested interests around it. Even when the model began to falter, they clung to it, through an authoritarian coup (1964), which led to 20 years of military rule.

Therefore, the opposition to the conservatives was concentrated in the political sector, that is, against the military in power, but not against the interventionist model that both conservatives and populists actually upheld. This is precisely the reason why very little was turned upside down when the “progressivists” took over after 1984. Under a representative regime—democracy in political terms—the interventionist model was not denounced but reinforced.

Throughout his mandate, President Sarney let *aging populism* prevail and dominate economic policies. The difference between classic and aging populism lies in the degree of proficiency in manipulating economic tools. The former is much more efficient than the latter. Aging populism tends to resort to extensive controls of the economy that eventually produce very few permanent effects but do create dramatic consequences in terms of macroeconomic imbalances (see table 6.1).

Sarney attempted three stabilization programs without any success because these programs tried to cope with the symptoms of the collapsing interventionist model rather than to focus on structural reform. One aspect common to all these policy experiments was their overinterventionism, in complete disregard of the markets.

17. *Abertura*, the Brazilian equivalent to *glasnost*, took place after 1979 and culminated with elections on 15 November 1984, when the opposition candidate, Tancredo Neves, was the winner. He had been minister of justice in Getúlio Vargas's last cabinet. As a young politician then, he inherited part of Vargas's political legacy.



All programs were based on two main ideas borrowed from a wide spectrum of academic economists, ranging from the left to the right: the “inertial inflation” and the “external debt-stagnation” hypothesis. The former argues that tight fiscal and monetary policies would have little effect upon inflation, leading only to a protracted recession.<sup>18</sup> The latter says that, in order to service the external debt, the debtor country is forced to transfer resources abroad that otherwise could be used to foster domestic investment and growth. On the other hand, as the country must run a trade surplus to finance its external debt service, it is necessary to restrain domestic demand and accelerate real devaluations of the exchange rate, actions that cause both stagnation and inflation. Both hypotheses proved to be thoroughly wrong.<sup>19</sup>

Nevertheless, these “theories” gave good excuses for a weak government not to control its public deficit and the money supply and deregulate the economy. It is not surprising, therefore, that the political coalition of conservatives and leftists eagerly carried out the policy recommendations of those “theories”: wage and price controls to break the price inertia and nonpayment of interest on external debt. They were both popular and both bypassed painful structural adjustments.

The first stabilization attempt, the Cruzado Plan (28 February 1986), led by the messianic Dílson Funaro, the late finance minister who froze wages and prices and declared there would be no public deficit. There was a massive monetary expansion to cover the public deficit and buy back domestic public debt. Six months later, despite all of Funaro’s patriotic efforts, the inflation rate showed its nasty face again and the external balance deteriorated. Nevertheless, the political gains, in the short run, were huge: the governing coalition managed to elect most of the state governors and a large number of seats in the Congress in the November 1986 elections. By early 1987, all popular support for the Sarney government had faded away. Then, the government blamed the “external debt” for all its problems and declared a moratorium without any results. The default of external debt received no popular support.

Bresser Pereira was then called in to substitute for Funaro. He carried out the second stabilization program, the so-called Bresser Plan (12 June 1987). Again wages and prices were frozen, and external debt was blamed for all problems. Bresser, a pragmatic economist, attempted both to control the public-sector deficit and to reach an agreement with external creditors. However meritorious his efforts were, he lacked the political support necessary to carry out his plan. More important, his mistaken assessment of the Brazilian

18. For an explanation of the inertial hypothesis of inflation, see Lopes (1984) and Simonsen (1986). The inertial hypothesis of Brazilian inflation has been challenged by various authors (e.g., Ronci 1988).

19. For a more detailed argument on the debt-stagnation hypothesis, see Bacha (1988), Cardoso and Dornbusch (1989), and Sachs (1987). For a critical examination of the external-debt hypothesis, see Castro and Ronci (1989).

economic crisis led to more intervention in the markets without addressing the more fundamental issue of structural reform.

In 1988, Mailson da Nobrega, a career civil servant, took over the Ministry of Finance. Initially, da Nobrega tried to control the public deficit, without success, on a day-by-day basis ("rice and beans policy") and then yielded to political pressure by freezing wages and prices once more as well as delaying the interest payments on external debt (the Summer Plan, January 1989). The effects of this plan were again short-lived: inflation rates went down the first three months and then rose to a 30% level and then moved upward.

All three attempts were basically flawed in both their diagnosis of the economic crisis and their solutions for it. The crisis stemmed from the inherited interventionist model. First, the excessive intervention in the markets was the true cause of growth stagnation rather than the burden of external debt in the 1980s. Government intervention through subsidizing certain activities, excessive regulation, subsidized interest rates to certain sectors, and the protection of domestic industry from foreign competition has stimulated a large number of low productive investments. The private sector in Brazil has received distorted signals from interest rates and relative prices, investing in sectors or regions where the return on capital was low. On the other hand, from the mid-seventies onward the government has substantially expanded its role as a producer of goods and services. As the majority of state corporations were inefficient, a good deal of their investments also resulted in low capital productivity. Finally the growth of the so-called entrepreneurial state also led to a decline of investments in health and education. The low quality of health and education has resulted in low productivity of labor and has sustained a perverse income distribution (see Martone 1985 and Suzigan 1988).

Second, institutional underdevelopment has led the Central Bank to cover the public-sector deficit by printing money and restricting its freedom to pursue an independent monetary policy to fight inflation.<sup>20</sup> Without a stable currency, the Tanzi effect operates against budget equilibrium. Internal debt piling sets in. As public finances deteriorates, credibility is affected and capital flight increases.

## 6.5 Concluding Remarks

The main points of this present essay are:

1. Politicians do not undertake populist actions simply in response to social pressures. The populist leader carries out careful political calculations of his actions and uses economic and noneconomic tools as a means to reach his objectives, which are to seize and keep power in an authoritarian fashion.
2. We cannot identify economic failures as always associated with populist

20. For a detailed examination of the Brazilian Central Bank, see Brandao (1989).

policies. Therefore, the concept of *economic populism* becomes meaningless for policy identification.

3. The main feature of populism is the institutional underdevelopment it provokes. Populism hates limits to the ruler's power that sound institutions would otherwise bring about. As a consequence, the countries that experience populism do not have strong institutions, like an independent Central Bank, an active Supreme Court, or a democratically elected Congress.

4. Regarding Brazilian history, Vargas's classic populism understood that the economy had to be run within the limits of financial constraints. In general, classic populism managed the economy quite well in the short run. However, it laid down the foundations of an interventionist model—excessive regulation of the economy and the expansion of the state as an entrepreneur—which distorted the allocation of resources and negatively affected Brazil's potential output.

5. All the events of the three decades after 1954 can be interpreted as a sequential attempt to cope with the long-run problems generated by the interventionist model inherited from Vargas. Brief intervals of conservative economic policies—indeed, reformist intermezzos—extended the life span of the model, but could not avoid its degeneration. Economic performance eventually collapsed regardless of the strengthening of controls over the economy.

6. Populism is an aging phenomenon in Brazil.

Is there an alternative to populism? We hold the view that liberalism can offer a way out of the predicament of most Latin American countries. But how can liberal formulas become “popular”? Maybe they do not have to. What has to become popular is the idea of democracy. This is the basic prerequisite for the growth of liberalism as a form of economic policy-making. From an evolutionary viewpoint, the time seems ripe for liberalization in Brazil. It will not come, however, through any rational decision of the elite but through various pressure elements stemming from the basis of the economic system.

## Appendix A

### *Sources of Data for Table 6.1*

*Column 1.*—Real gross domestic product (GDP) growth for the 1930–70 period was obtained from *Estatística Históricas do Brasil* (1987, p. 94) published by the Brazilian Institute of Geography and Statistics (IBGE). Real GDP growth for the 1980–89 period was obtained from the National Account Department of the IBGE.

*Column 2.*—The nominal wage index for the urban sector of the center-south region during the 1945–77 period was obtained from Goldsmith (1986, pp. 239 and 347). The nominal wage index for the manufacturing sector of

São Paulo State in the 1977–89 period was obtained from the FIESP index reported in *Conjuntura Econômica*, various issues.

*Column 3.*—Inflation was measured by the annual variation of the GDP deflator. For the 1930–80 period, it was found in *Estatísticas Históricas do Brasil* (1987, pp. 11–112, 159). For the 1980–89 period, it was obtained from the National Account Department of the IBGE.

*Columns 4 and 5.*—Here, M1 is defined as currency plus deposit accounts, and M2 is defined as M1 plus time deposits. Money figures are annual average balance variations. Data for the 1930–80 period was obtained from *Estatísticas Históricas do Brasil* (1987, p. 492–93, 503–5). For the 1980–89 period, it was obtained from the Central Bank of Brazil.

*Columns 6 and 7.*—Trade and current accounts in million of dollars for the 1930–80 period were obtained from *Estatística Históricas Brasileiras* (1987, p. 535–39) and for the 1980–89 period from *Conjuntura Econômica*, various issues. In order to calculate their shares of GDP, it was necessary to generate a series of GDP in dollars. First, we calculated the real GDP in billion of U.S. dollars using the IBGE estimate of GDP in 1988—\$350 billion—and the real growth rates of GDP. Having done that, we inflated the real GDP series using the producer price index for the United States as reported in *Main Economic Indicators* of OECD, various issues.

## Appendix B

**Table 6B.1 Macroeconomic Data of the Brazilian Economy**

Year	Real GDP (% Variation)	Nominal Wages (% Variation)	Inflation, GDP Deflator (annual %)	Money		Trade Balance (% GDP)	Current Account (% GDP)	Exchange Rate (annual %)
				M1 (annual %)	M2 (annual %)			
1930	-2.1	...	-12.36	...	...	7.5	-6.3	...
1931	-3.3	...	-10.87	-.83	.03	12.4	.4	46.1
1932	4.3	...	1.56	12.68	3.95	9.0	2.5	-.7
1933	8.9	...	-2.04	15.20	6.88	6.4	1.3	-6.0
1934	9.2	...	6.26	7.24	2.59	8.1	2.3	17.5
1935	2.9	...	4.79	6.17	8.08	5.0	-2.2	16.9
1936	12.1	...	1.64	7.79	9.21	7.4	.6	-1.2
1937	4.6	...	9.45	7.02	9.16	3.6	-3.4	-5.9
1938	4.5	...	3.16	14.73	10.29	2.7	.2	9.4
1939	2.5	...	2.04	17.72	15.39	4.5	1.6	9.5
1940	-1.1	...	6.70	-4.13	5.04	2.8	-.7	2.1
1941	5.0	...	10.22	3.92	8.12	6.8	4.3	1.5
1942	-2.7	...	16.24	23.66	22.41	9.9	8.6	.0
1943	8.5	...	16.61	28.68	25.76	9.1	7.4	.0
1944	7.6	...	20.64	41.82	39.56	9.2	6.3	.0
1945	3.2	...	14.92	35.16	34.32	10.8	7.8	.0
1946	11.8	...	14.57	13.90	15.70	9.8	4.7	.0
1947	2.3	...	9.04	13.57	10.04	2.6	-3.0	14.7
1948	9.7	...	5.90	-.63	-.85	4.6	0.0	18.4

1949	7.7	14.93	8.10	4.90	5.54	2.5	-1.3	8.5
1950	6.8	7.36	9.20	16.36	15.39	6.1	2.0	9.6
1951	4.9	8.47	18.4	27.56	24.83	.8	-5.0	-6.5
1952	7.3	14.13	9.3	19.50	16.84	-3.4	-7.3	13.7
1953	4.7	2.93	13.8	15.29	12.72	4.8	.6	31.0
1954	7.8	46.84	27.1	19.87	17.76	1.6	-2.1	39.2
1955	8.8	31.90	11.8	22.58	21.02	3.1	.0	18.5
1956	2.9	17.65	22.6	18.91	16.01	3.9	.5	0.1
1957	7.7	27.64	12.7	20.49	18.75	.9	-2.1	3.6
1958	10.8	14.58	12.4	28.13	26.64	.5	-1.8	71.6
1959	9.8	38.65	35.9	28.42	27.16	.5	-2.0	21.0
1960	9.4	26.51	25.4	35.15	32.77	-.1	-2.8	19.2
1961	8.6	29.62	34.7	40.88	41.09	.6	-1.2	52.8
1962	6.6	47.79	50.1	45.80	44.32	-.4	-1.9	80.0
1963	.6	61.67	78.4	59.87	56.61	.6	-.6	67.9
1964	3.4	74.83	89.9	65.52	64.23	1.6	.7	93.3
1965	2.4	67.60	58.2	85.70	84.97	3.0	1.7	11.5
1966	6.7	39.08	37.9	74.80	73.79	1.8	.2	17.3
1967	4.2	43.59	26.5	24.40	24.80	.8	-.9	22.3
1968	9.8	8.87	26.7	44.80	46.65	.1	-1.8	41.1
1969	9.5	25.58	20.1	38.04	38.81	1.0	-.8	6.6

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