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BRAZIL IN THE 1980S

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BTPAG-13/2-D

15 September 1980

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BRAZIL IN THE 1980s

William H. Overholt

In Brazil there is a widespread belief that God is a Brazilian. The decade and a half prior to 1980 offered considerable evidence in favor of this legend. In that decade and a half Brazil has been the fastest growing economy in Latin America and one of its most stable polities. These attributes have gradually made it the central political and economic power of Latin America and increasingly the most widely emulated model for managing Latin American development. In the process Brazil has become a key power in the Third World movement and a critical intermediary in the global north-south conflict. It has also become a pivotal nation for U.S. foreign policy, for multinational corporate investors, and for international banks.

Brazil achieved its current eminence despite recurrent problems. Brazil has experienced four decades of double digit inflation and even more decades of balance of payments deficits. Brazil's income distribution has always been remarkably unequal, and its racial harmony has never been quite able to obscure the systematic confining of black people to the bottom of the social scale. Brazil's extraordinary commodity booms, especially in rubber, coffee, and sugar, have usually been conducted with all the ruthlessness, violence and illegality of the California Gold Rush. Despite all this, the economy has grown, most people have benefited, and social tensions have seldom erupted into organized violence. Brazil's successes have histories as long as its problems. Growth has been in the range of 6 to 7 per cent per year since the 1930s, international peace has been the norm for most of Brazil's history, and the huge, diverse nation has always managed to maintain its essential unity. All of this further reinforces the theory that God is a Brazilian.

Nonetheless, the long continuities of Brazilian social history are not without occasional kinks. The period of stable, inward-looking, democratic growth of the 1950s gave way in the early 1960s to a major social crisis. The very qualities which had ensured success for more than a decade began to cause problems. Populist democratic politics, together with a historical accident, brought to power an irresponsible demagogue, Goulart, who appeared willing to risk economic and political chaos. Inward-looking policies based on import substitution reached a point of diminishing returns when they began to enhance inflation rather than to perpetuate growth. Inflation reached an unacceptable 80 per cent, growth nearly ceased, and political disorder spread.

It was not clear prior to the military coup of 1964 what new system would emerge in Brazil, but it was quite clear that some new system would emerge. The result could have been an emergence of Peronist populism, unionism and economic breakdown, or inward-looking, nationalist, military authoritarianism, or a debilitating struggle between advocates of these two paths. Instead, the Brazilian military intervened decisively, changed to an outward-looking economic model, improved the management of government institutions, and implemented a series of historic economic innovations which quickly reduced the inflation rate, raised the growth rate, and precipitated a state takeover of much of the economy. The Brazilian military's decisiveness and economic success created the basis for political stability throughout the remaining 1960s and through the 1970s. The Brazilian military ruled as an institution, as exemplified by the rule that no President could rule for a second term, and thereby avoided the problems of individual dictatorship.

By 1980, however, there was evidence of the emergence of yet another system change. Brazil's debt, around \$58 billion by the end of 1980, became

the highest foreign debt that any country in world history had ever accumulated. The inflation rate, in excess of 100 per cent, far exceeded Goulart's. A degree of social inequality which had always been bad became substantially worse. The coalition of 1964, comprising the military, the government, the technocrats, the Sao Paulo industrialists, and the landlords of the Northeast, narrowed as the industrialists became angered by state takeover of the economy, churchmen and academics and members of the middle class became increasingly concerned about human rights, and rising economic problems sapped the morale of remaining members of the coalition. Meanwhile, economic growth was increasing the size and sophistication of powerful opposition groups such as labor, the press, and the academic establishment. Rising social consciousness increasingly cemented a coalition comprising all of these groups and an increasingly outspoken activist wing of the Catholic Church. (These changes did not force the military to liberalize, but they served as leading indicators of an emerging situation and the military took the hint -- at least partially.)

A system which had controlled inflation came to promote hyperinflation. A system which had greatly stimulated domestic investment, and then promoted investment via foreign borrowing, became a system where inflation and uncertainty discouraged saving, and where new debts had to be acquired mainly to repay old debts. A system based on firm control of labor became driven by concern about potential labor activism. The military which took pride in its suppression of populist politics found itself the supporter of a government which feared to address the problems of inflation and debt by controlling the growth rate, because reduced growth might upset key interest groups. In this new situation, the military's central project of making Brazil a great power

at almost any cost became increasingly discredited. In place of that single goal there emerged new values, notable social justice, democracy, and human rights.

The roots of the new problems were numerous. Economic development invariably promotes the emergence of social pluralism and social complexity. A new generation, which had not experienced the problems of the Goulart era, came to maturity conscious mainly of the human rights problems of the military government. The single-mindedness of the drive for international power through growth led to neglect of human concerns over income distribution, nutrition, and economic security. The success of the growth program made the economy too complex for a small, hierarchical military group to manage. (Under Geisel, it was necessary for the President of the Republic to set the price of taxis in Curitiba.) The determination to grow made the regime unwilling to slow down and consolidate its position after oil prices rose in 1973. The hammerlock of the state firms over the energy industry prevented a diversified, competitive search for new sources of energy and new sources of oil, which might have resolved the energy crisis. Although Brazil had to some extent opened itself to multinational corporations, the strong nationalism of the regime nevertheless led to a policy of favoring foreign borrowing to support state firms, rather than encouraging private domestic and foreign investment as the principal sources of growth. The result was massive dependence on foreign borrowing and foreign energy, which created an economic crisis coincident with the political crisis of the late 1970s.

The harbingers of fundamental change began with the election of President Geisel, who came to power in 1974. The oil crisis first hit the nation hard in 1974 and, together with a rise in the price of imported capital goods,

induced an enormous increase in Brazil's foreign debt. Geisel initiated a program of gradual political liberalization and welfare reform. He sought to enliven the press, to circumscribe the national security agencies, and to restore a role to Congress. Simultaneously he purged the São Paulo industrialists from senior decision-making positions. Unfortunately for Geisel's program, the government suffered electoral defeats in 1974 and 1976, the economic reforms proved inflationary, and opposition to the government from Sao Paulo mounted. Precisely those groups and regions which had most benefited from the economics of military rule proved most opposed to its continuation. Geisel therefore cracked down, closing Congress in April of 1977, but, instead of creating a conservative atmosphere of stability, the action precipitated strikes and massive student riots. Although the military of course defeated the students, it could not afford to win additional victories of this kind. Strikes recurred under President Figueiredo in the spring of 1979 and the spring of 1980.

The government therefore found itself with a diminished base of social support, with an increasingly cohesive and broad-based opposition, and with a major economic crisis, all of which it had to address from a position of weakened morale caused by the economic problems. The government was coming to the end of a cycle from broad coalition to narrow, from stimulator of domestic and foreign investment to inhibitor, from reducer of inflation to promoter, from suppressor of interest groups to fear of them, from innovator of new ideas to ideological vacuum, from government intervention as a solution of economic problems to government red tape as a major cause of problems, and from the state sector as a source of efficiency and direction to the state sector as a source of inertia. Clearly a cycle was ending.

The Economy in 1980

As Brazil's economy entered a new decade, its growth rate remained relatively high, having grown at an impressive 7.5 percent annual rate since the oil crisis in 1973. Growth was accompanied by very impressive technological achievements and competitiveness. Most important of all, in the previous decade and a half, although inequality had apparently worsened, all groups had gained in absolute terms. However, rising energy problems, inflation and debt appeared to foreshadow a decline in the growth rate and hence a period when some groups would cease to progress and some might even move backward.

The economy in this period also achieved an impressive degree of diversification and self-sufficiency. Agriculture, industry, trade, transport and communications had all grown at an average of 6 percent or more for many years. Brazil's agriculture was a major and competitive producer of cocoa, soybeans, coffee, peanuts, bananas, sugar cane and cotton. Its mining industry drew upon one of the world's richest collections of ores and precious stones. Its broadly diversified manufacturing industry increased its exports at a rate of 30 percent per year in the late 1970s. The economy moved from a primitive one which depended on imports for most modern goods to one which produced the vast majority of its capital goods domestically. Brazil had successfully diversified its trade partners, first away from the U.S. toward Western Europe and Japan, then into third world markets. A wave of import substitution, following two earlier waves -- in the 1930s for basic manufactures and in the 1950s for consumer durables -- catapulted Brazil toward self-sufficiency in capital goods, fertilizer and steel. However, the economic independence which should have been one of the great benefits of such

successes was severely qualified by extraordinary dependence on energy from the Middle East and bank loans from the industrial democracies.

Debt. As Brazil's debt climbed toward US\$58 billion in 1980, the country suffered a massive loss of reserves due to a devaluation which frightened private firms away from further borrowing of foreign currencies. (A devaluation forces the Brazilian firm to repay more cruzeiros to satisfy a dollar obligation than would have been required prior to the devaluation.) Brazil's debt service and its oil import bill together became greater than the value of its total exports, forcing it to borrow in order to pay for other essential imports. The country's ratio of debt service payments to exports reached 70 per cent. While Brazil's non-oil imports remained constant in nominal terms, and therefore declined rapidly in real terms, and while the ratio of its debt to its gross domestic product remained about average for developing nations, the country was clearly headed into a major financial squeeze.

Energy was the fundamental cause of Brazil's balance of payments difficulties by the end of the 1970s. This was not true in the immediate aftermath of the 1973 oil price rise, when the increased cost of capital goods actually accounted for two thirds of the rise in Brazil's foreign indebtedness. In the interim, Brazil embarked on a massive import substitution program, rapidly increasing its domestic production of needed capital goods and raw materials. Whereas Brazil imported \$2 billion of steel in 1974, expenditure of \$4.2 billion in 1975 for import substitution created a situation by 1978 where Brazil imported \$0.5 billion of steel but exported the same amount. It sought to control use of oil products and achieved some impressive successes: 1979 gasoline production was only 106 per cent of 1973

gasoline consumption, despite an enormous rise in gross national product during that same period. Moreover, Brazil's long term energy prospects are auspicious. Massive oil exploration is likely to achieve at least some successes. During 1980, Santa Catarina was discovered to possess coal that was 56 per cent pure (as compared with a Brazilian norm of 15 per cent). A massive program to substitute alcohol for gasoline was expected to yield 11 billion liters of alcohol per year by 1985. Fortaleza is believed to possess 400,000 tons of uranium reserves (twice the usual publicly announced figures). Brazil actually possessed a surplus of electric power, even in 1980, but electric power remained more expensive than oil. Nonetheless, for the early to mid-1980s, Brazil requires an irreducible minimum of petroleum to provide diesel fuel for its transportation system and fertilizer for its agriculture. Prospects for reducing imported oil below one million barrels per day appear poor. Thus, increased growth seems, inevitably, to entail enhanced energy independence and increased debt.

Brazil's characteristic response to such problems under the military regime has been to grow out of them by substituting domestic production of raw materials and capital goods for imports and by exporting more in order to pay for its increased energy bill. However, this approach, successful in the booming world economy of the 1960s and early 1970s, was increasingly difficult in the world economy of the early 1980s, characterized by slow growth of industrialized countries' markets, high world inflation, scarce energy, and rising protectionism in the advanced countries.

Inflation. One of the great early successes of the military regime was to reduce inflation from approximately 80 percent to 10 percent. However, during the 1970s inflation gradually crept higher, reaching an average rate

around 40 percent after the mid-1970s. In 1979 inflation rose dramatically, from an annual rate of 32.4 percent in the first quarter to 101.9 per cent in the fourth quarter, and continued at a rate in excess of 100 percent well into 1980. While controlled inflation was being replaced by hyperinflation, Brazil's system of monetary indexing, whereby wage rates, rents, mortgages, tax rates, asset values, and key financial instruments are adjusted to minimize the distortions of inflation, was drastically altered so that it offset only a portion of the effects of inflation. While this change may have facilitated the fight against inflation, it raised the social costs of inflation.

The hyperinflation of 1980 had many causes. As in 1964, diminishing returns from a massive import substitution program were one cause. A massive inflow of foreign loans during the late 1970s greatly expanded the money supply. Agricultural credit was supplied at a 15 percent interest rate in a period of 77 percent inflation, and a general policy of supplying credit at a negative real interest rate created enormous demand for credit. Ironically, inflation was also caused by the removal of some subsidies in 1979 — in particular by a devaluation (which raised the prices of imports) designed to compensate exporters for their loss of export subsidies. Extraordinary overregulation of the economy contributed to inflation, as did the ability of the state firms to bypass many of the central government's money supply control measures.

All these economic contributors to inflation were important. However, ultimately, the explanation of hyperinflation, and of its persistence, was political. There were measures by which the country's technocrats could have coped with each of the country's principal sources of inflation. But the

economic managers could not face the political prospect of telling their military backers to abandon their project of becoming a great power through rapid growth. A regime with a narrow political base and an increasingly active labor movement feared massive strikes if it limited the wage increases to the increase in productivity. A regime in delicate political health feared massive social disorders if unemployment and underemployment were increased by policies which cut the growth rate. Ambitious technocrats feared the future electoral wrath of São Paulo's technocrats if growth slowed too much. The regime was hesitant to confront the powerful state firms whose actions were expanding the money supply.

Inequality. While inflation, energy and debt were Brazil's most immediate problems, social inequality was ultimately the most serious one. The inequality of income distribution in Brazil exceeds the income inequality in virtually all of the world's other large countries. The inequality has many sources. Given the large geographic size of Brazil, it is inevitable that some regions of the the country would modernize long before others. The boom and bust of Brazil's traditional commodity cycles has meant that, throughout most of its history, there have been boom and bust regions, too. But other countries, such as China, have faced these problems and overcome them. The greatest source of Brazilian inequality has probably been the narrowness of its education system, which in 1976 left 35 percent of the population totally illiterate and an additional 41 percent with only one to four years of education, while only 2 percent received twelve to seventeen years of education. Brazil's tax system is less progressive than most nations. Its income taxes are hardly progressive, it lacks capital gains and wealth taxes, its inheritance tax is quite limited, and numerous tax loopholes

allow the wealthy to escape taxes. Racial discrimination condemns most of the black population to poverty. Economic management focuses on the large and wealthy sector of the population -- for instance, providing large farms with massive agricultural credits to which the poor are denied access because they lack the necessary collateral, the sophistication to obtain the credit, and the political contacts needed to approve the credit. Likewise, Brazil's policies systematically subsidize capital and technology as opposed to labor. Heavy subsidies reduce the price of capital goods; welfare taxes are levied on wages rather than on value added; and an administrative emphasis on promoting importation of high technology and discouraging importation of older technologies encourages capital-intensive industry. Overregulation of the economy leads to corruption and to extensive requirements for political access in order to gain administrative approvals, a requirement which discriminates heavily against the poor and those far from the center of power. Massive underemployment of the labor force and an exceedingly young demographic structure also enhance the degree of social inequality.

All these influences add up to an economy in which 10 percent of the families receive more than half of the wealth, per capita income in the northeast is only 40 percent of the national per capita income, life expectancy among the poor of the northeast is only 40 years, and, unlike virtually every other country with similar per capita incomes, death from starvation actually occurs in some parts of Brazil.

Inequality this massive is self-perpetuating. The nation's markets are largely confined to the relatively wealthy, who demand goods which are energy-intensive, import-intensive and capital-intensive. Manufacture or importation of these goods employs only a fraction of the available labor

force in the modern economy. Unemployment is the worst form of income inequality.

Because of this vicious cycle, Brazil's several economic crises are interrelated. Better equity would imply a pattern of final demand emphasizing local, labor-intensive goods and, hence, would promote reduced imports of energy and high technology. Emphasis on local, labor-intensive goods in turn would promote greater employment and lower prices and, therefore, better equity. The higher taxation, political conflict and administrative disruption attendant upon creation of a more egalitarian economy would slow growth for a period of time, and this would be hard on the poor, but tax and welfare reforms could limit the burden borne by the poor.

Moving Brazil out of its vicious circle would require an immense effort of political will. But, as will be explored below, Brazil's political institutions appeared paralyzed and unable to act on these large issues. Some Brazilian officials were inclined to take the view that the economic problems were imposed on Brazil from outside and that the world should therefore save Brazil. But the crisis was building well before the oil price rise -- as evidenced in huge disparities between supply and demand, in tremendous imbalance among sectors, in the huge 1973 expansion of the money supply, and in enormous imports of steel and fertilizer. The cause of the great rise in Brazil's deficit after 1973 was only one-third oil; two-thirds was for capital machinery to support Brazil's import substitution programs. Moreover, other countries adjusted successfully to the oil price rise without hyperinflation and crippling debt; South Korea, with an energy import problem proportionately much higher than Brazil's, and few exports to the Middle East in 1974, achieved a balance of payments surplus with the Middle East by 1976. Brazil's

economic crisis was a product of conscious Brazilian policies exacerbated by difficult world economic conditions. It can only be resolved only through acts of Brazilian political will.

Conditions of the Polity

Major Political Trends

Brazil's politics in 1980 have been sketched above. The government lost the three elections prior to 1980 on a popular vote basis, lost more and more massively, and lost particularly in those regions which had economically benefited most from military government. Many former supporters of military government had deserted. The regime suffered from a fundamental contradiction: it was a dynamic, technocratic, modernizing force allied to backward groups (particularly the Northeast landlords) whose interests are threatened by modernization, and it has increasingly been opposed by all of society's most modern emerging forces. The economy had become too complex for hierarchical military management. The complexity resulted from the successful diversification described earlier, but also from a massive overregulation of the economy by the government. (Most industries face the multiple complexities of incentives, subsidies, quotas, price controls, wage controls, multifarious required project approvals, and multiple monetary indexing requirements. The U.S. Federal Reserve has regulated the U.S. monetary system with approximately fifty regulations since 1917, whereas Brazil issued more than five hundred such regulations in the fifteen years prior to 1980.) Having blundered into economic crisis, the government became indecisive and demoralized because its only public and private rationale for remaining in power was superior economic competence. The Brazilian military has never

articulated a comprehensive or coherent conservative philosophy, but instead has rationalized its role as an interim one of providing superior management while creating the preconditions for an eventual return to civilian rule. The ruling coalition has narrowed, the guiding Sorbonne group within the military has aged, and the project of becoming a great power through growth has gradually become discredited.

Meanwhile, there occurred a flowering of civil society. The press became more assertive. The massive student population showed a willingness to riot under extreme conditions. Many lawyers became politicized. The leading edge of the Catholic Church cultivated grass roots organizations throughout much of the country, spread a gospel of social justice, and provided significant economic support to Sao Paulo strikers. The emergence of these potentially powerful civilian opposition groups, and their gradual coalescence into a political coalition, were accelerated by the visit of Pope John Paul II to Brazil in July of 1980. The Pope confounded the expectations of conservatives that he would repudiate the liberal and radical philosophies of the activist Churchmen and, instead, wholeheartedly embraced the goals of liberalization and social justice. The timing and the political adroitness of the Pope's visit crystallized an emerging consensus that Brazil must pursue the new values of liberalization, human rights, and, above all, social justice.

Principal Brazilian Institutions

Brazil's politics in this period revolved around five key political institutions: the military, the Catholic Church, labor, the Communist Party, and vestigial democratic institutions.

The Military. The first and predominant of the key Brazilian institutions was the military. Since 1964, the military had established the

basic rules of politics, designated those allowed to hold power, established the boundaries on political activity, opened or closed the Congress, controlled the labor movement, granted a constitution in 1967, and changed laws almost at will. The military ruled within the broad framework of an image of Brazil as a great power, of a basic institutional framework established shortly after 1964, and a basic set of policies, all of which were formulated by the Sorbonne Group under General Golberry at the Superior War College in the early 1960s. In the 1970s, one of the principal instruments of rule was the National Intelligence Service (SNI), which General Figueredo ran before he became a President in 1979. The intelligence organization gathered information, assessed general trends against the larger aims of the regime, and often suggested lines of policy.

While the military was the predominant institution, it did not perceive itself as directly ruling. The Cabinet was comprised largely of civilians, and the President, while always a four-star general, was required to resign his military post before becoming President. In the military's view, it took power reluctantly in response to mobs, economic disaster, fears of leftist ideology and demagogic rule, governmental paralysis, a terrorist movement, and indications that a leftist regime was going to tamper with the structure of the officer corps. Above all, the military believed it intervened largely in response to the demands of the middle-class, the industrialists, and other broad sectors of Brazilian society.

The officer corps is intensely patriotic, deeply dedicated to the cohesion of military institutions, and unideological. It does not seek to perpetuate its own rule at all costs. It maintains a commitment that goes beyond mere rhetoric to the ideals of eventual civilian and democratic rule.

It intervened at the express request of civilians and believes it would retire from a large and direct role in politics if it perceived a responsible competent unified civilian elite. However, in the meantime it deliberately fosters civilian division and seeks to ensure that any civilian political initiatives remain within fairly narrowly defined boundaries of what the military regards as acceptable. It is unlikely ever again to withdraw completely to the barracks, but its abertura plans are sincere.

Despite its predominance, the military acts within limits established by the rest of society. It acts within the limits of a moral consensus which inhibits it from completely destroying Congress, completely obliterating the electoral system, changing the roles of major social groups too quickly, or creating an articulated anti-democratic ideology. Despite short run deviations, in the long run it acts within the limits of a moral consensus which damages the military's prestige and its own self-image if, for instance, it responds to student demonstrations by shooting students or by resorting to torture in the absence of a persuasive rationale. While the power of the state firms, of organized labor, and of middle class opinion have some influence over the limits of military behaviour, the most serious boundary condition on military behaviour is the need to maintain its own cohesion; extreme behaviour threatens the internal cohesion of the military -- since Brazil lacks the conditions of extreme terrorism, strong radical threats, or international threats, which typically justify or rationalize extreme military behaviour elsewhere. The military desires public support. In 1974, 1976, and 1978, which were election years, the government pursued expansionist economic policies, whereas in the intervening non-election years it pursued contractionary policies. In this respect it has behaved as much as a civilian government would have.

In the late 1970s, the military was widely viewed as having discredited itself as an economic manager. The crises of inflation, debt and energy, as well as the larger political paralysis, were largely laid at the door of the military by most civilian groups. However, the fact that the military does not perceive itself as ruling directly insulates it, in its own mind, from the disillusionment of the current government. The military perceives itself as basically having guided the country to economic success and political stability and perceives most of the country's current problems as caused by world economic conditions and by the wrangling of civilian politicians.

While the military retains an image of the future of Brazil as a great power due to economic success, technological progress, and moderate politics, together with appropriate international relationships, the military does not appear to have a coherent program, comprising well-defined priorities and specific policies, designed to achieve its vision of the future. Instead, it possesses an affinity for high-growth policies, for large projects, and for conservative domestic and international alignments, together with a determination to avoid economic stagnation and radical politics. Under current conditions, its great power drive appears greatly reduced.

The military pursues its goals in quite unideological fashion. While it styles itself as conservative, it has led the state takeover of much of the Brazilian economy. Historically it has frequently adopted the views of its opponents, particularly in 1930, in 1952, and in the post-1964 state takeover of the economy. It is quite capable of adapting to the changing values of Brazilian society; for instance, in response to social pressures both Presidents Geisel and Figueredo have sought ways to make the income distribution more egalitarian. Given sufficient pressure in the future, it is

not at all unthinkable that the military would form new social alliances and adopt dramatically different principal goals if it believed that by so doing it could enhance its own goals of growth, prestige and national security.

Labor is the second critical institution in Brazil. Frequently labor is regarded as a powerful force and a major initiator of social change, but such a role lies largely in the future. Brazilian labor is tremendously fragmented both geographically and socially. The skilled unions of Rio and especially São Paulo are large, organized, sophisticated, and on the way to developing significant autonomy. Typically, these groups of skilled workers possess considerable market power due to a pervasive Brazilian shortage of education and skills. On the other hand, the vast majority of industrial workers are unskilled, totally dependent on the Ministry of Labor, in small unions, very poor, and lacking in market power because 40% of the work force is underemployed and more or less competing for these unskilled jobs.

Brazilian labor is further weakened by its traditional ties to the government. The government organized and funded the principal trade unions. The government's overall strategy toward the unions, in this era as in most others, is to provide extensive services in return for political subservience. The principal union funds come from a tax of one day's pay per year, which is collected by the government and turned over to the unions. The various unions have a monopoly of representation in their designated sector, but in return for this monopoly they must accept government rules. The government has the right to choose which unions will be recognized, to expel leaders, to cancel union elections, and to supervise the use of union funds. Unions are not allowed to organize a general labor confederation. The management of unions is minutely regulated through a consolidated system of labor law now somewhat obsolete.

Government controls on trade unions have been particularly stringent since the 1964 military revolution. Immediately after that revolution, there was a vast purge of the unions, followed by the installation of government-approved union leaders. Labor was excluded from the decision making councils established by the government, and control of union funds was centralized outside the Ministry of Labor. From 1968 to 1973, strikes were totally suppressed. Moreover, under the National Security Law, the government has the broad right to intervene against any activity which it believes a threat to national security.

Nonetheless, the social leverage of labor is significant, and it has improved enormously with the tremendous expansion of industry since 1964. The concentration of virtually all modern unions in Rio and São Paulo belies labor's claim to be a truly national institution, but concentration can become a source of organizational strength. Fifty-two percent of the industrial labor force was concentrated in those two cities during 1978, including the workers in virtually all of Brazil's truly modern industries. There are increasingly broad alliances among labor groups, a change from earlier years when each small group sought mainly to protect its privileges relative to the others. The liberal wing of the Catholic Church has linked its stronger and better funded organization to the aspirations of the labor unions, particularly in São Paulo, and along with the spread of grass roots Catholic Church organizations has gone a tremendous spread of grass roots union organization. Just as important, the modern unions of São Paulo have become a reference group for the rest of the country and therefore achieve union influence through their role as delineators of the appropriate life style, organization, and leadership style for the rest of the country.

Moreover, although the government has severely restricted union activities, it has not sought to weaken or to destroy unions. The government would prefer to deal with organized, experienced labor leaders rather than with wildcat strikes and sabotage. The labor courts are permitted to play a strong role in adjudicating individual workers' grievances and have a reputation as being the best and most independent courts in Brazil. The government has taken the lead in creating a pension fund, a severance pay fund, and a system of wage adjustment for inflation, and has recently taken the initiative in seeking to improve the income distribution by allocating significantly higher wage adjustments to the worst paid workers. The government has taken the initiative in allowing a wider zone within which labor-management negotiations can occur, in allowing more strike activity, and in undertaking some reforms of labor law. While these are caveats to the basic facts of labor union weakness and severe government control, it is philosophy remain important symbols of continuity -- as reminders of the only political philosophy which has ever achieved broad acceptance in Brazil.

The Catholic Church. The third political institution was the Catholic Church. The Church's influence is, of course, primarily moral and political, whereas the military's influence is primarily based on force and economic power (as well as patriotism and its remaining image of managerial competence). But the Catholic Church's influence is pervasive. It has an inherent moral right to speak, which is difficult for the military to counter. It possesses grass roots organizations to an extent not matched by the government or by any political party. In consequence, it has emerged as the principal articulator of the new values (social justice, human rights, democracy) which are emerging as the dominant ones of Brazil in the 1980s.

The Catholic Church is a far more powerful social influence than the labor unions or the intelligentsia, and it has a great deal more staying power than the press.

The Communist Party. A fourth key political institution was the Communist Party, which, however, was fatally weak in every region. A long, dominant conservative trend in Brazilian society, the discrediting of the revolutionary far left throughout most of Latin America during the 1960s and 1970s, and destruction of communist and terrorist groups by the military during Medici's rule (1967-'73) all contributed to making the Communist Party a very weak force.

Democratic Institutions. Finally, Brazil has a collection of democratic institutions which for two decades have been largely vestigial. But the mayors, governors, councils, parliaments, and other institutional flotsam of the democratic philosophy remain important symbols of continuity -- as remainders of the only political philosophy which has ever achieved broad acceptance in Brazil.

In addition to the interplay of these formal institutions, in order to understand Brazilian society one must take account of the tendency for pervasive changes in attitude and opinion to be far ahead of institutional developments and institutional pressures. The emerging national consensus on the issue of social justice is the most important current example of such a trend in society. Concern about income distribution existed for decades among academics and left-wing political and labor leaders, but by the mid-1970s the success of the economic miracle and the triumph over terrorist organizations had created a situation in which most major social groups were willing to acknowledge that they had to address goals other than economic growth and

anti-communism. From the time he took office in 1974, President Geisel sought to improve the income distribution and to introduce various welfare measures. In this he failed completely, but his concerns signalled the influence of the emerging social consensus even over the most senior leaders of the military. President Figueiredo and Planning Minister Delfim have taken far more initiatives--with results that remain to be seen. Implementing effective and wide-ranging income redistribution policies may require a whole new institutional approach, but when that approach comes it will greatly benefit from its ability to build on wage policies, welfare policies, and tax policies which were initiated by a right-wing military government.

Such new trends as the emerging consensus on the importance of income distribution supplement enduring social characteristics of Brazilian culture, including the society's remarkable ingrained sense of vitality and the deep commitment to a basically moderate and peaceful course; while these characteristics have not prevented economic difficulties and violence, they have contributed to a long-term steadiness of growth and continuity of social trends which contrast sharply with many of Brazil's neighbors.

Political-Economic Dilemmas

The nation's dilemma is that these major institutions, and the principal interest groups discussed earlier, are not now linked in ways which can be economically and politically effective. The dilemma of the government is that the traditional link between military government and decisive policy has been severed. Most Brazilians associate democracy with inflation, because democratic government in Brazil (as in much of the third world) has often meant weak government institutions further weakened by patronage politics and successfully pressed upon by powerful interest groups. Thus, the demands of

patronage politics have often led to economic policies which responded to interest group pressures rather than to technical economic considerations. On the other hand, military rule has been associated with decisive technocratic policies which limit inflation and raise the growth rate. The burden of the above analysis is that the current government now possesses such a narrow political base that it must fear further erosion of political support and, therefore, is vulnerable to pressure groups in the same way that democratic governments of the past have been. Moreover, key members of the military government are hopeful of attaining office in a democratic government and do not wish to offend powerful interest groups which might become the key to their future election. Therefore, the current government has acquired most of the problems of a democratic government while retaining most of the problems of a military government.

One obvious way out of this situation is to broaden the political base of the government through a return to democracy. This solution would be based on the fact that Brazil now has powerful government institutions which are not so vulnerable to the patronage politics of the past, as well as a much more educated public opinion.

Democratic government might work better in the future than it has in the past. However, the democrats face a dilemma nearly as difficult as that of the government. For fifteen years the military has prevented the emergence of major new leaders. Meanwhile, many of the old leaders have aged and become tired, and their philosophies have become obsolete. While political parties have emerged, they consist primarily of small elite groups with few deep roots in the society. In 1980 the new political parties were able to articulate clearly their grievances against the government, and to give eloquent

expression to the new values of egalitarianism, human rights, and democracy, but for the most part they lacked detailed programs. Some of the leaders even express the view that the formulation of detailed programs could await the achievement of political power. But the transformation of society from a hierarchical, inegalitarian structure to a democratic, egalitarian structure is an extraordinarily complex task which, given limited resources, must be approached with a firm set of priorities. Even in a stable situation, a government which comes to power able to articulate values, but lacking a detailed conception of its program and its priorities, can get into serious trouble; this was the central problem of the Carter Administration in the United States in 1977-1980. For a new political coalition to come to power without recent experience of governing and without prior attention to detailed programs and priorities is a recipe for trouble. In a context of inflation running at the rate of 100 percent, and foreign debt climbing to crisis proportions, a year or more of stumbling could mean economic disaster. Thus, while the transition to more democratic government is the only apparent long-term solution to Brazil's political and economic problems, there is a good chance that it would bring great trouble in the short run.

Thus, the Brazilian nation has boxed itself into a political corner. As noted, one result is hyperinflation. A second result has been a pattern of pervasive indecisiveness and uncertainty which contrasts sharply with the decisive, predictable policies that underlay Brazil's success in the period of the "economic miracle," 1967-'74. The pattern of indecisiveness and uncertainty is visible in many ways. Minister of Planning Delfim encouraged farmers to expand their crops with the promise of high prices. Then, however, needing revenues, he imposed an export tax on soybeans. Because of the export

tax, soybean farmers did not export their crops, exacerbating the balance of payments problem. Delfim then removed the export tax but in so doing created a desperate need for new government revenues. In order to acquire those revenues, he imposed a retroactive compulsory loan to the government on the wealthiest 30,000 individuals in the country and, by refusing to apply monetary correction to the loan, turned the loan into a tax. This caused a great outcry, because the loan/tax was based on a portion of Brazilians' income tax returns which they had been guaranteed would be used only for statistical purposes and not as the basis of a tax. As a result of political and legal challenges, Delfim was forced to apply monetary correction to the loans.

A similar pattern of indecisiveness and uncertainty was created by Delfim's decision to devalue the cruzeiro by 30 percent in December 1979. It had long been an axiom of Brazilian monetary policy that predictability of the currency was a key to successful trade. Therefore, the government had followed a policy of mini-devaluation, rather than holding the currency at a fixed value for a long time and then suddenly imposing a large devaluation. However, faced with an overvalued currency which inhibited exports by raising their prices, Delfim undertook his maxi-devaluation. As a result, borrowing of dollars virtually ceased, because potential borrowers feared that another maxi-devaluation would force them to repay far more cruzeiros than they had originally borrowed. The result was a loss of US\$4 billion in reserves of foreign currency during the first half of 1980. This loss of reserves greatly exacerbated Brazil's emerging balance of payments crisis. Therefore, in order to reduce the uncertainty he had caused, Delfim promised that, during 1980, the total devaluation of the currency would be pegged at 40 percent. However,

he then lost control of the money supply, and inflation jumped to 100 percent. With inflation at this rate, and with devaluation at only 40 percent, by the end of the year Brazil's exports would rise in price and would therefore become unmarketable. Since most foreign borrowers did not believe Delfim would allow this to happen, his policies worsened the uncertainty rather than reducing it. Delfim then attempted to pressure people into borrowing foreign currencies by imposing a substantial transactions tax on borrowing of cruzeiros. The overall pattern was a series of makeshift policies, each of which was designed to deal with unanticipated consequences of its predecessor and each of which, ultimately, contributed to the very uncertainty which it was trying to eliminate.

This pattern of indecisiveness and uncertainty was not only evident in narrow areas of policy. Brazil faced, in this period, issues of the greatest moment concerning foreign debt, energy policy, the future of labor-management relations, inflation, transport, and land tenure, among others. In all of these, half measures were taken but no overall policy was announced or pursued. The government failed to define the situations in which it would intervene in strikes, failed to decide where to change the jurisdictional boundaries of São Paulo area unions, vacillated on the wage and money supply policies so crucial in fighting inflation, legalized certain land takeovers by poor people without defining an overall land reform policy, and so forth.

As indicated below, the government followed the same pattern in its political policies. It responded to liberalization pressures but it retreated every time there were difficulties in the economy or in labor-management relationships, and it attempted to hedge its bets in ways that threatened to deprive any elected government of the broad base and legitimacy that were the

intended results of the policy. Thus the pervasive pattern of uncertainty included such narrow areas of policy as soybean taxes and devaluations, such broad areas of policy as debt, energy, labor-management relations, inflation, transport, and land tenure, and also the broad directions of overall economic and political policy. As in 1964, institutional paralysis was a major indicator of a looming change of system. Unlike the situation in 1964, neither the government, nor the military, nor the individual political parties was able to articulate a broad strategic response to the political and economic crisis of the nation. Each group was able to criticize the other. The political parties possessed political strategies (given their fragmentation, not very credible ones) but failed to articulate major economic policies. The government, facing economic problems with ultimate political roots, frantically addressed the successive surface manifestations of its problems but failed to articulate an overall economic strategy and hedged on the political changes which were a prerequisite to success of any economic strategy. The pattern of indecisiveness, and the paired dilemmas of the government and the advocates of democracy, clearly demonstrated that Brazil was at the end of one era but not yet at the beginning of a new era.

Society in the 1980s

1980 saw the development to critical levels of key social trends as well as economic and political trends. Just as the economy saw a crisis of debt, energy, and inflation, and the polity developed crises of support, complexity and legitimacy, so Brazilian society saw crises of expectations, fragmentation, powerlessness, and crime, as well as the strengthening of trends toward centralization, bureaucratization, statization, and a more nationalistic and inward-looking view of Brazil.

The Crisis of Expectations. The drop of Brazil's growth rate from an average of 10 percent per year, 1967-'74, to an average around 7.5 percent for the rest of the 1970s, created a sense of malaise. That growth rate was viewed in the late 1970s almost the way a recession is viewed in the United States. It undermined the legitimacy of the regime, both because it was substantially lower than the growth rate of the preceding period and also because it was substantially identical to the rate of growth achieved in the democratic 1950s; since the legitimacy of the regime depended upon its ability to outpace the growth rate under democracy, even a relatively impressive 7.5 percent per year was politically inadequate. The prospect of substantially lower growth, as a result of the inflation and debt crises, could greatly exacerbate this malaise. The economy must add 1.5 million jobs per year to employ new labor force entrants, and simultaneously it should also be coping with an underemployment rate estimated at 40 percent.* An economy growing below 5 percent cannot cope with these problems. Since every decile of the income distribution had been moving steadily upward for a decade and a half, a decline in the working conditions of some groups could be particularly painful and dangerous.

The Crisis of Legitimacy. The problems of the regime go well beyond the crisis of legitimacy caused by declining growth rates and by narrowing of its social base of support. Although Brazilians, and others, tend to personalize the crisis of the regime, the situation is not focused on President Geisel or President Figueiredo or Planning Minister Delfim Netto, nor is it simply a matter of the role of the military in the government. Declining institutional performance casts into doubt the whole constellation of institutions which has

*Vivian Morgan-Mendez, An Overview of the Brazilian Economy: 1979 (Sao Paulo: American Chamber of Commerce for Brazil, 1979, pp. 18-19).

undergirded the military regime from 1964 to 1979. The role of the military, the role of the São Paulo industrialists, the role of multinational corporations, and the basic goals and directions of the economy all are thrown into doubt. This does not mean that there are no fundamental continuities in these roles and directions, but it does mean that questions are being asked which had seemed some years ago to have been already answered.

The Crisis of Fragmentation. One of the fundamental purposes of the military intervention in politics was to cut through the traditional complexities of getting things done in the economy by suppressing the operation of influential pressure groups on the government and also by suppressing many of the active conflicts among social groups. To a considerable extent this was effective, particularly in the first decade of military rule, but suppression of these normal pressures and frictions tends to isolate groups from one another and from the government. Thus, by 1980 many businessmen came to fear direct negotiations with labor and, even more important, the government came to fear the consequences of direct negotiation between labor and business. The military and economic elite came to be unaware of the conditions and opinions of the masses of industrial workers, not to speak of the situation of the rural peasantry. Academics not only ceased to pressure the government; believing that to focus one's research on the problems of Brazilian society was both useless and dangerous, they increasingly focused their teaching and research on narrow professional interests rather than current social issues, and on very long-range value perspectives rather than on current programs. The ability of the press to communicate the views of each group to other groups was narrowly circumscribed. The government became extremely secretive regarding many kinds

of statistics and policy studies. Rising crime (see below) further isolated social groups from one another.

The Rise of Crime. During the latter 1970s, violence and crime rose at a spectacular rate in Brazil's major cities. The causes of this rising violence were numerous. Urban favelas grew rapidly, and the reduced growth of the economy limited the ability of the major cities to absorb vast numbers of new workers. The judicial system was swamped and thus became ineffective as a deterrent to crime. Police, frustrated by the impotence of the judicial system and encouraged by their freedom from constraints under military rule, took matters into their own hands. Arbitrary beatings became the norm for minor robbers, prostitutes, and anyone who happened to irritate police sensibilities. Out-of-uniform policemen formed death squads to deal with more serious crimes. Police violence and torture, in turn, spawned highly organized criminal groups. It is a Brazilian tradition that the police could apply to lower class groups a degree of arbitrary power which would have been intolerable if directed at middle- or upper-class groups. It got out of control and became increasingly intolerable for the lower class while spreading also into the treatment of middle-class individuals. Some right wing groups responded to liberalization in 1980 by bombing news stands.

Increasingly, violence was caused by the police rather than being a police response to underclass activities. The police were, in the first place, recruited from social groups heavily inclined toward crime. Frustrated by the judicial system, demoralized by their declining status in a society less and less inclined to accept their conduct, and threatened economically by declining real income, the police increasingly became the criminals. Throughout the country, policemen engaged in stealing cars. The military

controls key bridges in order to limit smuggling by the police of automobiles into other states of Brazil and into Paraguay. Many Brazilians will no longer report a robbery to the police out of fear that the police will simply take whatever the robbers happened to leave.

Increasingly, police violence and criminality affect the middle class and even officials of multinational corporations. By 1980 it was impossible to find an expatriate executive who had not experienced police violence either to his own family or to close friends. The circumstances were multifarious. The young son of one senior expatriate executive did not come home from school one day; at four o'clock in the morning his frantic parents discovered that the police had stopped him, demanded an identification card (which expatriate children generally do not carry), and, when he could not comply, took him to the police station where he was tortured and badly hurt. Another corporate executive had his car stolen and, after the police located it, was told that he would have to pay several thousand dollars to the police for its return. When he complained to a senior police official, he was first told that he had to pay up, then later forced to flee the country in order to prevent retaliation by policemen angry that they had been informed upon. A North American family whose son had been seen smoking pot was warned by Brazilian friends not to let the boy come home lest the police use his presence as an excuse to ransack the home.

This pervasive, increasing violence against those who walk the sidewalks along the beaches in Rio, against the property in middle class houses, in land seizures by the poor of the northeast, against suspected criminals by death squads and of the police against anyone suspected of crime or bad political activity, could itself become a major source of social resentments and social change.

The Crisis of Urbanization. A trend toward excessive urbanization has been evident in most key Latin American cities for more than a generation. Mexico City is perhaps the outstanding example. But Rio de Janeiro and São Paulo appear to be reaching a point where the trends no longer simply continue to cause marginal changes, but drastically affect the quality of life of their inhabitants. The conditions of the individual poor in these cities are unpleasant by the standards of the industrial democracies, but they are not themselves the main issue. The favelas of São Paulo are very poor by the standards of São Paulo, but their inhabitants are infinitely better off than the rural poor of Northeast Brazil. Moreover, the economic problems of the slum dwellers of São Paulo are so much better than their counterparts in Calcutta or Djakarta or even Manila that there is simply no comparison. Housing is built from scruffy but usually fairly solid materials. Water is usually not too far away. Garbage is usually collected fairly regularly. Television antennae sprout from a majority of huts in many of the favelas. But the contrast between the middle class and the slum dweller is overwhelming. The sheer numbers of poor are large, and for people who have moved to Sao Paulo from the Northeast there is very little prospect of coping with unemployment by fishing in the rivers or returning to the farms; abundant rivers and available farms are simply too far away. Disappointed expectations are very widespread. Severe pollution is drastically altering the spectacular beauty of Rio de Janeiro and may cause a decline of tourism. The city of Rio, with economic problems mounting since the capital moved to Brasilia, found itself, in 1980, nearly bankrupt. Recife, the most prominent city of the povrty-stricken northeast, had much of its area dominated by areas of poor people who had seized land, built huts, and were inclined to robbery and violent personal attack upon any outsider who happened by.

All these trends parallel the economic and political crises mentioned earlier. They are closely related to the economic slowdown, the economic inequality, the increasing scale of social problems, and the decreasing ability of the government to act decisively. They are not necessarily eternal problems, but they are deep-rooted ones. Ultimately, they can be resolved only by resolving the principal economic problems, resolving the crisis of political authority, transforming the attitudes of government and police toward society, and changing the structure of economic activity so that production becomes more labor-intensive, jobs become more available, institutions regain their authority, and the attractions of life outside the major cities come to balance the attractions of Rio and São Paulo.

Accompanying these crises are a series of social trends which have, so far, appeared inexorable. These trends are not crises in themselves, but they are wrapped up in the crises and they powerfully affect the evolution of Brazilian institutions and the quality of Brazilian life. These trends include centralization, statization, bureaucratization, nationalism, and a tendency for the country to become more inward-looking.

Centralization has been one of the key trends in Brazilian history. Brazil was originally a unitary state, but became divided into provinces after 1891. Under the military regime after 1964, local government was decisively weakened. Castello Branco's termination of direct gubernatorial elections killed the mechanism by which most of Brazil's traditional political leaders were trained and became publicly visible. Simultaneous with the weakening of local government has come the weakening of private industry relative to both the state firms and to the central government per se. In addition, the power of the government relative to foreign governments and to foreign influences

generally has risen quite dramatically under the military regime.

Statization, the takeover of much of the economy by government entites, has accompanied and accelerated centralization. Statization began as a response to the local economic ramifications of the Great Depression. It spread as part of a determination to secure in government hands those industries essential to national security. It spread further as a response to Brazil's desire to ensure rapid development of its entire territory. The government's desire to promote development of Brazil's resources as rapidly as possible, and to compete successfully with multinational corporations, led to the creation of vast state firms in the petroleum, mining, and other industries. Petrobras, Electrobras and Companhia Vale do Rio Doce have spawned subsidiaries to the point where they have joined the world's larger conglomerates. All of the largest economic operations in Brazil are conducted by state firms, rather than private Brazilian firms or multinational corporations.

The Brazilian strategy of inflation also contributed to statization. The government's economic strategy entailed a high rate of inflation, and the government sought to minimize the consequences of inflation through a monetary indexing system. Government bonds were indexed while private equity could not be indexed, so money flooded into safer government financial instruments and was, in turn, channeled preferentially into state enterprises. Roughly two-thirds of the total credit in the Brazilian economy is channeled directly or indirectly by the government. All of this occurred during a regime ostensibly devoted to private enterprise, and toward the end of the 1970s the government responded to criticism of the trend toward statization by initiating some measures to revitalize Brazilian private industry. For

instance, there were efforts to stop the preferential channeling of credit into the state firms. It remains to be seen, however, whether the Brazilian response to the energy and equity problems of the 1980s will not bring a further massive expansion of the state role in the economy.

During the early years of the military regime, the state role in the economy was unquestionably beneficial. Inflation was cut by nearly an order of magnitude and the growth rate reached an historic peak. However, by the late 1970s the gigantic state role often hindered the progress of the economy. The state firms were able systematically to frustrate central government efforts to control the money supply. Petrobras was able to impede many of the reforms which, to the detriment of Petrobras' monopoly position, would have created an effective response to Brazil's energy problems. When Brazil, along with other Latin American countries, decided that the energy crisis required the nation to allow the reentry of foreign oil companies into Brazil, Petrobras took a full year to write the rules for exploration by foreign oil companies. It gained the right to negotiate all the risk contracts with foreign companies, and took four years to negotiate the first ones, most of which were in bad areas; the foreign companies bought some drilling rights for fear of later retaliation if they did not, but did not for the most part invest in actual drilling because they knew the areas to be unpromising. In 1979 President Figueredo finally declared that all areas in which Petrobras itself was not prospecting were open to exploration by foreign companies. The director of Petrobras immediately announced that, if foreign firms were to find a giant field, their contracts would then be subject to renegotiation. By this series of measures Petrobras effectively inhibited its own government's response to one of the nation's most serious problems in this century.

Thus, although the initial impetus for statization came from the need to solve specific problems which only the state could solve, and although state intervention did initially address those problems with considerable success, there is now pressure for the perpetuation and expansion of state control over large sectors of the economy because of the vested interests of the state firms. The interests of the state firms frequently clash with the major monetary and economic policy goals of the government. Furthermore, it has proved much easier for the government to gain revenue and to control the money supply by squeezing private individuals, private firms, farmers, and labor than by controlling the state firms. In 1979 the government sought to freeze half of all foreign loans to private companies, but not to the state firms. The soybean tax and the compulsory loans of 1980 sought to squeeze revenue from private individuals in order to support massive deficits by the state firms. As Britain earlier discovered, state ownership of large firms usually entails in the long run a loss of state control over the economy, because the tissue of interests and administration tying state firms to government bureaus implies far more influence for the state firms than for private firms.

Bureaucratization. The spread of bureaucracy has been one of the most pervasive trends in Brazil since 1964. This trend reflects the extremely activist role of the regime in managing the economy, as well as a determination to dominate Brazil's national politics. Brazil created the giant state firms in order to meet the challenge of developing Brazil's natural resources in competition with the multinational corporations, then had to create government bureaucracies in order to control the increasingly autonomous state firms. Brazil employed monetary correction to overcome the

consequences of inflation, then differentiated the corrections according to several different criteria, and had to create a large bureaucracy to implement with this set of policies. Likewise, government control of most of the credit in the economy requires large bureaucracies, pervasive government subsidies require large bureaucracies to implement them, various forms of restrictions on imports require large bureaucracies to implement them, and an intricate system of industrial project approvals, technology controls, and the like require large bureaucracies. But the spread of bureaucracy in Brazil has gone well beyond the requirements of policy implementation. For instance, in order to obtain a hotel room in Brazil, one must fill out an extensive form listing such things as the full name of one's mother and father. As with its accompanying trends, centralization and statization, bureaucratization has become a self-perpetuating and self-expanding phenomenon. Layers of bureaucracy cope with the economy, with politics, with multinational corporations, and with OPEC, but then succeeding layers cope with the other bureaucracies. The result is the gradual slowing down of the whole system of political and administrative decision.

The twin trends toward centralization and more detailed control of the economy cannot continue forever without causing the machinery of administration to seize up. Brazil is still far from the pervasive economic controls and bureaucratic inefficiencies of Eastern Europe, but it has gone very far in that direction. Unlike Taiwan and South Korea, which also manage their economies in great detail, Brazil is a much larger country and, therefore, less easy to control through detailed bureaucratic regulation. And Brazil lacks the Confucian style of administration, which manages to

administer the economy in great detail while utilizing a fairly small proportion of the country's financial and human resources. Whether future Brazilian administrations will turn this trend around by cutting through the sometimes contradictory layers of rules and administrators and reverting more and more to market mechanisms, or whether they will pursue greater bureaucratic control through greater and greater centralization of power, is one of the great decisions that Brazil will face in the 1980s. Meanwhile, the Brazilian government is increasingly muscle-bound.

Nationalism. During the Goulart era, Brazilian nationalism emerged strongly and addressed itself, above all, to attacks on the role of multinational corporations in Brazil. This occurred during an era when Brazil's economy was, in fact, quite inward-looking, focused on import substitution rather than export promotion; this inward-looking approach to economics was not merely an economic policy but also a reflection of the underlying nationalism of Brazilian society. While the Brazilian military is certainly nationalistic in its attitudes, the military expressed its nationalism through a desire to make Brazil into a great power by rapid economic expansion; such expansion could, in the views of the military regime, most rapidly be realized via more open, outward-looking economic programs, designed to attract foreign capital and to promote Brazilian exports. In this program the military was successful, at least until recently, and success enabled it to repress some of the more traditional forms of Brazilian nationalism, as expressed for instance in nationalization of multinational corporations. As the policies of the military regime ran into difficulty in the late 1970s, and as gradual political liberalization permitted the

reemergence of some of the traditional populist nationalism, many of the old themes became prominent once again.

A number of trends coincided to promote overt nationalism in the late 1970s. First, Brazil could now afford nationalistic policies. Brazil's trade and investment were large and diversified, so the country no longer depended upon the sufferance of the United States to the extent that had been true fifteen years earlier. The country was far more self-sufficient in capital goods and food than previously. Government administration, the state firms, and Brazilian private firms had grown to an extent which made domination of policies by the U.S. government or domination of the economy by multinational corporations an impossibility. Reinforcing trends occurred in foreign policy. The Carter administration's pursuit of human rights policies, anti-nuclear proliferation policies, and tariff policies (for instance, on sugar), which were an abomination to the Brazilian government, elicited a nationalistic response from Brazil's government and military, and the toothlessness of those policies gave them an aura of impotence and even of hypocrisy, so that they failed to elicit broad support for the United States, even from opposition groups which concurred with the pro-human rights and anti-nuclear proliferation mistrust of U.S. policies. Thus, while the government continued to suppress the strongest forms of nationalistic expression -- for instance, firing (in 1980) a general who made an outspoken speech denouncing multinational corporations -- it was not surprising that all political parties, with the partial exception of the official governing party, adopted strong nationalistic platforms, most of which specifically identified multinational corporations and technology transfer issues as major sources of concern.

Given the reemergence of some degree of populist politics, if it continues in the early 1980s, expanded articulation of nationalist views is virtually certain to persist and to grow. The policy consequences of such articulation will depend upon which groups come to power, which issues surface (for instance, the timing and manner of a debt rescheduling, if it occurs), and U.S. policies at the time. It does appear likely that, although the relative U.S. political and economic profile in Brazil is far lower than ever before, Brazilian nationalism will, by a kind of social inertia, continue to be directed almost exclusively at the United States and its corporations rather than at the rising German and Japanese presence. Similarly, foreign firms are likely to be blamed for a number of the economic problems which are actually caused by state firms or by nationalistic policies. For instance, after one discounts the consequences of OPEC oil price rises, inflation is to a large extent caused by the practices of Brazil's state firms, and the debt crisis is a consequence of Brazil's tendency to borrow money to support its state firms rather than further encouraging foreign equity investment. But many Brazilian political leaders find it convenient to attribute both economic problems largely to the machinations of the multinational corporations.

Scenarios for the Future

Muddling Through and Controlled Abertura

Facing this complex of economic, political and social problems, the Brazilian government has clearly perceived the need for change but, naturally enough, has sought to hedge its bets in order to maintain as much continuity as possible with the policies of the previous fifteen years. To the outside

observer, today's problems appear as the culmination of policies, begun in 1964, which were initially successful but later became obsolete. The outside observer perceives a need for a major system change in order to consolidate the successes of the past and to create the possibility of further rapid progress in the future. For the most part, those managing the system prefer to perceive not an obsolete system but, instead, a series of discrete technocratic problems (inflation, debt, complexity, pluralism, bureaucratization . . .) which can be addressed discretely and by meliorative approaches rather than by system transformation.

The regime's economic scenario for the early 1980s is a continuation of its past policy of growing out of the problems. High growth is perceived as necessary to continue Brazil's rise internationally, to continue its technological modernization, and to ward off discontent from workers and industrialists whose expectations have risen in line with the achievements of the "economic miracle." Energy problems are to be addressed by massive programs to substitute alcohol for gasoline, to expand hydropower, to find new oil, to find and exploit high-quality coal reserves, and by conservation. Balance of payments problems are to be solved by massive investment in export promotion and import substitution. The country's need for imports other than oil is to be reduced by expanded efforts to produce raw materials at home and to manufacture Brazil's capital goods domestically, as well as by greatly expanding Brazil's agricultural exports. Imports of food are to be minimized by a further expansion of Brazilian agriculture. Control over the economy is to be reasserted by centralizing power in the hands of Delfim Netto, by consolidating and enforcing a comprehensive public sector budget, and by

reintroducing market forces in some areas where subsidies and administrative controls had become predominant. Egalitarian pressures are to be appeased through expanded public education, through social security programs, through gradual liberalization of labor rules, and through gradual introduction of more egalitarian wage indexing and tax policies. This piecemeal, high-growth approach contrasts sharply with the proposals of those who maintain that the economy should drastically slow its growth, in order to minimize inflationary pressures and demand for imports, and who argue that the egalitarian policies can only be successful when implemented by political forces not tied so closely to current social elites.

The government's political theory of the transition is, on the surface, somewhat more revolutionary. The announced goals of abertura seem to promise a transition from hierarchical military rule to liberal democratic rule. The government understands that its political base has become unacceptably narrow, and that the breadth and cohesion of the opposition has increased. It attempts to solve this problem by broadening the political base through liberalization.

The government's original theory of the evolution of Brazilian politics is what some Brazilian political scientists have called Mexicanization. The government attempted to create a dominant political party, like the Mexican PRI, which would not be likely to lose power even though open political opposition was allowed and formal democratic rules were followed. In practice, such a situation would perpetuate the trend of the military regime toward substituting administration for politics. However, the military's governing party, ARENA, lacked the Mexican party's social cohesion, which was

created in the process of fighting a politically successful revolution. The Brazilian opposition, rather than becoming a permanently small minority, increasingly became more influential and, in fact, showed that it would eventually be capable of defeating the government in an election which was conducted under truly fair and open rules. Moreover, as democratic sentiment rose, without any increase in opposition influence over policies, power increasingly gravitated toward the more radical opposition groups. Thus, the original government strategy seemed to be leading toward a situation where an opposition party of overwhelming electoral strength would be led by its most radical elements.

The government's response to this situation was creative. It sought to appease pressures for liberalization without running any real risk of the emergence of forces hostile to the current regime's basic lines of policy. It created a political opening without any real risk of a transfer of power to opposition groups. The goal was liberalization without democratization. In order to solve the problem of the united and increasingly radicalized position, the regime abolished the rules which aggregated the entire opposition into a single party; it thereby permitted the emergence of a multiparty system in which the opposition would be fragmented. It abolished Institutional Act V, which permitted rule by decree, and liberalized its approach to the press and labor. It gave amnesty to substantial numbers of prisoners. On the other hand, Congress was granted no real power. A multi-candidate system for election of mayors and governors permitted the emasculation of officials who got too far out of line. Deputies in Congress who made speeches excessively irritating to the government were accused by the

Justice Ministry, strikes remained formally illegal, and the government jailed labor leaders and reporters who attempted to make political capital out of strikes. Moreover, when economic difficulties arose, the government felt quite comfortable in backpedaling, even to the extent of seeking to the 1981 municipal elections and the 1982 gubernatorial elections. (The 1981 elections were canceled, even though the government would have won overwhelmingly, because the government believed that popular pressures in a direct election would have implied excessive spending, even by its own candidates.)

Thus, the process of liberalization in Brazil is fundamentally unlike liberalizations that have occurred, for instance, in Spain and Portugal. Abertura is granted, not taken. Abertura is a limited grant of social liberalization subject to the contending parties remaining within very narrow boundaries of good behavior. Economic goals remain paramount, whereas in Portugal and Spain democratic rules of the game represented the highest aspiration.

In both the economic and the political realms taken alone, these government policies could conceivably be successful. The political policies, like the economic policies, represent a balancing act of considerable precariousness. The problem is that, while the economic policies by themselves might succeed, and while the political policies by themselves might succeed, economic and political precariousness are mutually reinforcing. The probability that both political and economic policies will simultaneously succeed is thereby greatly reduced. Because of the precarious political situation, the government's economic policies are marked by indecision (as noted above), by an emphasis on short-term political effects rather than

long-term economic strategy, by an anti-inflation policy which emphasizes "announcement effects" in a period of greatly reduced government credibility, and by a lack of firm, persistent priorities among debt, inflation, energy, transportation, and social welfare. Conversely, the political theory of broadening the base of the regime through liberalization is so hedged and compromised by fear that true democratization would mean strikes, spending, and welfare programs, and hence exacerbation of the debt and inflation crises, that there is risk of creating political disillusionment rather than broadened support. The risk, in short, is that the political balancing act will be undone by economic hedges and that the economic balancing act will be undone by political considerations, resulting in a period of debt rescheduling, energy shortages, massive inflation, and social unrest. The absence of an organizing vision, and of firm priorities, would create governmental paralysis.

Economically Satisfactory Democracy.

The risk is not an inevitability. Given a combination of good luck, particularly in the form of a series of bounteous harvests and no further oil price rises; good management, particularly in the form of vigorous control of inflationary pressures; and goodwill, particularly in the form of patience from Brazil's workers, the regime could win its bet. If it does so, then industry might continue to grow at 6 to 7 percent and agriculture at 4 or 5 percent, thus maintaining employment and producing enough food to reduce inflation, feed the alcohol program, and increase agricultural and manufacturing exports at a rapid rate. Exports would grow at a rate of 20 to 30 per cent, while imports would grow at a rate of 15 to 20 per cent. Oil

imports in this scenario could increase only very slightly, say by 1 per cent per year, and the price would increase very little in real terms. (This is conceivable since OPEC oil prices declined in real terms between 1974 and the middle of 1979.) This scenario would also require that Brazil continue to succeed in keeping non-oil imports approximately constant in real terms and that international interest rates not rise much above the mid-1980 level of 10-13 per cent. In addition, it would presume that the government would somehow find a way to convince public opinion that liberalization and democratization were real, although slow, even though key elections have been canceled.

Assuming success in this strategy of muddling through economically and liberalizing the polity without initially democratizing it, Brazil would eventually come to face a new set of problems. Under the muddling through/controlled abertura scenario, debt and inflation would gradually come under control and Brazil would begin to move toward reduced dependence on imported energy. Liberalization would gradually continue until it became real democratization. At that point, the nation would face two challenges. The first would be to keep the democratization consistent with continued progress in resolving the economic crisis. The second would be to make egalitarianism and democracy consistent with each other.

As noted earlier, the old association of democracy with economic incompetence on the one hand, and of military rule with technocratic competence on the other, has to some extent been broken. The emergence of strong institutions to manage the economy, and of widespread knowledge among elite groups of the basic rules of economics, attenuates the old correlation

between democratic politics and patronage-based, inflationary economic management. Simultaneously, the military's political weakness and its managers' desire for future electoral popularity make the military machine vulnerable to the kinds of inflationary pressures which once undermined democratic government. On the other hand, the democratic political parties' lack of detailed economic programs undermines their claim that they could manage the economy during a particularly difficult period. Those parties' lack of inspiring leaders and of deep social roots undermines their claim that they could broaden the political base of a new democratic regime sufficiently to make hard anti-inflationary and anti-debt decisions at an early date. The lack of dialogue among the parties further undermines the concept of a broad democratic coalition attacking difficult economic problems. In a period where the economy desperately needs to promote additional foreign investment and additional exports, and to control the state firms, the nationalism and the blind eye toward the state firms which are the stock-in-trade of most of the Brazilian democratic parties could lead to serious economic problems. So far, the programs of the principal opposition parties are an exorcism ritual. They oppose dictators. They oppose torture. They oppose censorship. They oppose multinational corporations. But positive programs are lacking. The formulation of positive programs has fallen, not to the political parties, but to the Catholic Church, and even the Church's programs lack firm priorities and technocratic calculations.

Given time, these problems of the economic competence of democratic leadership are potentially solvable. Were the country not already engaged in an economic crisis, they might be solved in the early years of democratic

government. In the current situation, they could conceivably be solved through the gradual emergence of broad coalitions and through the development by the political parties of cadres of technocrats with detailed programs. In past years, capable administrators and scholars have naturally migrated into the government, since there was little hope of ever attaining influence via opposition parties. In the event that the possibility of opposition rule becomes credible, then over a period of time there could emerge in Brazil the kinds of technocratic coalitions which underlie the formulation of party platforms in the United States.

The second problem of a purely democratic Brazilian government would go much deeper. It is a problem which Brazilian politicians and democratically oriented scholars have been utterly unwilling to face, namely the tension between democratic goals and egalitarian goals. In Brazil, as in much of the non-communist world, it is generally assumed that democracy means rule by number of votes, and that rule by number of votes means pressures for egalitarianism. In a highly advanced society, where virtually every segment of the population is politically mobilized, this may be an accurate picture of the principal pressures on democratic politics. However, in the third world, where most groups are politically unaware, politically unorganized, and intellectually unsophisticated, parliaments have been nearly everywhere the instruments of economic conservatism. With rare exceptions, landlords rather than peasants, and industrialists rather than workers, are elected to Congress.

In Brazil, the natural exceptions to this rule would occur in São Paulo where, in comparison with other regions of Brazil, workers are relatively

well-paid, relatively well-educated, relatively conscious of political issues, and very susceptible to political organization. However, workers in the rest of Brazil have not reached this stage of development, and peasants throughout the country are far behind the average worker. Historically, the dominant party in Brazil has been a coalition of landlords, bureaucrats and industrialists, joined together in a social-democratic party (PSI) which held the centrist majority from 1946-'64. This kind of coalition is not likely to vote for massive land reform, or for transformation of the tax system into a highly progressive one, or for transformation of the administrative system from one focused on problems of large-scale industry and large-scale agriculture to one focused on the problems of illiterate farmers. There is little reason to believe that Brazil would transcend its own experience of the 1950s, and the experience of virtually all other third world countries during their typically brief periods of democracy, and implement, through votes of Congress, policies which would satisfy the egalitarian aspirations of much of the nation. While the most visible and most outspoken members of the opposition parties do strongly articulate egalitarian goals, once in power they would have to contend with the representatives of the northeast landlords; with the representatives of liberal groups whose ideological fixations about multinational corporations and technology transfer and urban wages would inhibit their professed egalitarian goals; with the representatives of São Paulo industrialists who would want to continue to expand their capital-intensive industries; and with the representatives of the São Paulo labor movement who, despite idealistic professions of sympathy for the peasant masses, would promote the wages and conditions of the São Paulo labor elite at the expense of rural peasant interests.

The dilemma of egalitarian democrats exists in microcosm in the politics of Brazil's Northeast. This region, with an area and a population greater than Argentina and Chile combined, comprises a very high proportion of Brazil's poorest people and of its social problems. Here, people still starve to death in droughts. Here, public political consciousness is heavily shaped by massive rural and urban land invasions in which the poor seize property from the rich. The growth rate of the region, around 5 percent per year for several decades, is sufficient to support massive improvement of living standards. However, politics is dominated by a backward landowning elite which must be dispossessed before social reforms can be carried out. The poor are too weak and too unorganized to dispossess the landowning elite. The region's industrialists are largely in traditional, backward industries, and are therefore too few and too weak to challenge the dominant elite. Liberal intellectuals perceive the political displacement of the landowning elite as the key to socioeconomic progress. However, the same liberal intellectuals generally oppose the influx into the region of modern industries funded by either foreign capital or São Paulo capital on the grounds that modern industry is capital-intensive and would therefore lead to higher unemployment. This economic non sequitur, which has powerful political roots, short circuits the possibility that an influx of modern technology would create a class of modern industrialists, and a powerful union movement, and the other political forces which modernization entails, at the expense of conservative landholders. In short, the economic policies of the liberal intellectuals defeat their political goals and undermine the prospects for egalitarianism.

In other high-growth countries of the developing world, egalitarian policies have been successfully introduced only over a long period of time, or else they have been introduced, as in Taiwan or South Korea, by a regime which imposed massive land reform, kept the wages of the labor elite low, encouraged the inflow of foreign capital into labor-intensive, low-technology industries, suppressed the political influence of labor unions and middle-class reformers, and imposed truly massive taxes upon the rich. This is not to say that it is impossible for Brazil to resolve its problems through some new socio-economic formula, as it did 1964. Perhaps the size and diversity of Brazil make possible the formation of egalitarian coalitions which have not been feasible in smaller countries. But so far Brazil's liberal egalitarians have taken for granted that democracy and egalitarianism inevitably reinforce one another, or have willfully ignored the tensions between the two goals, rather than arguing that they have a new formula which could resolve the apparent contradictions.

If these contradictions cannot be overcome, egalitarianism is not likely to be the goal that gives way. While all of Brazil's major opposition groups promote democracy, the issue of social justice weighs heaviest on their minds. Social justice without democracy is possible in Brazil. Democracy without social justice would self-destruct. Unless Brazil's democratic political leaders acknowledge the tensions between egalitarianism and democracy, and unless they proceed to form their coalitions and formulate their programs specifically to overcome these tensions, there is little prospect for stable democracy in this inegalitarian society.

If democratization, growth and gradual income distribution change are to occur steadily and successfully despite the dilemmas, certain conditions are

likely to prove necessary. The executive will remain predominant over the legislature, in order to minimize resistance to egalitarian reforms, and popular enthusiasm will focus on local elections (as in the past). Large parts of the currently fragmented opposition will coalesce and develop a consensus of sorts on egalitarian policies. The president will come from the majority party. From local elections, from the unions, and from business will emerge a new generation of political leaders with programmatic ideas as well as slogans, and with broad bases of public support. The centralized state will take strong stands against the inevitable excessive demands from the state firms and from the elite unions, in order to implement an egalitarian program focused on those urban and (especially) rural people currently outside the modern economy. The Northeast landlords will find themselves isolated by a broad coalition of modernizing and egalitarian groups. The military will be reassured by the existence of a strong, centralized government and will restrict itself to policing the boundaries of the system. While not all of these conditions need to be met, and while none of them is likely to be perfectly met, some rough equivalent of these conditions is necessary for long-run success.

If the democratic regime is to promote egalitarian economic policies, it will have to organize the polity in such a way that pressures for egalitarianism are strong and sustained. This means a period of political organizing. Workers must be organized into unions, and the government must develop effective ties to such unions. The rural poor must be mobilized into effective political organizations. In the process, however, gradual as it is intended to be, there would necessarily be a certain amount of radical

rhetoric. The interests of rural landlords, traditional politicians, and Sao Paulo industrialists would be challenged. A military which has come to associate such organization with security threats might well become uneasy. Thus, if the democratic regime is successful in promoting egalitarian economic policies and the political structures to underpin them, it will simultaneously risk military intervention. Moreover, the military's fears might not prove completely unjustified. Mobilization of relatively poor and uneducated groups into politics could add some unguided missiles to Brazilian political artillery. Once again, these are problems which talented politicians may be able to overcome, but it is important not to underestimate the magnitude of the challenges.

Populist Breakdown

As noted several times previously, the development of Brazilian society has attenuated much of the old connection between populist democracy on the one hand and irresponsible, patronage-oriented economic policies on the other. The emergence of Brazilian technocracy is a trend which cannot be fully reversed, and this means that a large portion of the government and of key groups in private organizations will be a force in favor of careful and responsible economic calculation, rather than political demagoguery. Nonetheless, no democratic government is completely free of the danger of demagoguery. It is, therefore, important to analyze the circumstances under which Brazil might face a recurrence of populist breakdown.

The populist regime which created breakdown in 1964 came to power when an accident of history allowed the vice president, Joao Goulart, to reach power.

would work again under the changed conditions of the early 1980s. In 1964 the government was more confident, the government's supporting political coalition was broader, unions were smaller, the Catholic Church was less active, and opposition to military rule from the press, academia and the middle class was far less. The imposition of military rule in 1964 came after wide-open democracy had been tried and, in the eyes of many members of these key groups, had created the potential for disaster. In the early 1980s, the military regime, rather than the left, would be the obvious object of blame. Thus, it might occur that, following the imposition of these policies, massive strikes would break out in São Paulo. Government repression of the strikes and arrest of strike leaders might work, but it might also trigger further strikes and precipitate massive student demonstrations throughout the country. While workers might be forced back into the factories, they might also respond with sabotage or even isolated acts of terrorism. The Catholic Church might successfully organize tremendous strike funds as well as focusing pressures from Germany and the United States in favor of improvement in human rights. In short, while a repressive program of austerity might work, due to some combination of of immature opposition forces, a break in the opposition coalition, and perception that the problems were caused by OPEC oil price rises or by irresponsible opposition activities, there is also the possibility that opposition to the authoritarian program would prove too amorphous, too complex, and too widespread to be suppressed.

If successful, an authoritarian austerity program could lead to the gradual reduction of Brazil's inflation, gradual improvement of its debt service ratio, and gradual amelioration of Brazil's dependence on imported

oil. Then the way would be open for reemergence of democratic forces. In the current political climate it is most unlikely that an authoritarian austerity program could be imposed for the indefinite future. Unless truly extraordinary economic or international conditions emerge, stable harsh right wing Brazilian military rule has, at most, a few more years left in it.

There are important variations of the authoritarian austerity scenario. First, if the precipitating conditions appeared to have been caused primarily by foreign events, or could plausibly be blamed on foreigners, then the military might obtain far broader public support than if the primary causes of difficulty appeared to be domestic.

Second, regardless of the causes of the new authoritarianism, the military would be far more likely to succeed over the long run if, rather than simply imposing classical stabilization measures, it identified institutional paralysis as the principal economic problem and conducted a sweeping institutional reform designed to return the economy to something approximating market interest rates, market prices, and market exchange rates, as well as to reduce sharply the ability of the state firms to override government policies.

Right Wing Breakdown

If the authoritarian austerity program were unsuccessful in returning the country to economic and political stability, Brazil's politics might degenerate into a polarization of harder and harder right-wing military policies on the one hand and more and more radical opposition on the other. This would cause continual deterioration in the economy, as labor productivity failed to improve, foreign investment dried up, foreign banks became nervous,

and the government increasingly focused on political repression rather than on economic policy. On the other hand, there is a possibility that the military would step back from the confrontation, reassess the situation, and adopt a new egalitarian strategy seeking to co-opt the forces of the left.

Military Egalitarianism

Facing a situation where the old methods did not work, the Brazilian military might let the situation deteriorate into polarization and chaos. However, the Brazilian military has in the past demonstrated an impressive capacity for pragmatism and for good strategic analysis. While the Brazilian military has generally pictured itself as "right wing," it has also led to the takeover by the government of much of the economy when that seemed to serve the interests of national economic development goals. In short, the military is capable of taking strong pragmatic action even when that action seems ideologically incongruous. Second, much of the military has joined the national consensus that something needs to be done about the income distribution. President Geisel, a four-star general, took the first steps toward improving the welfare of poverty-stricken Brazilian workers. Third, it is quite conceivable that the intellectual leaders of the military, in the Superior War College or elsewhere, could undertake a strategic analysis of the changed social situation somewhat like the one presented above and conclude that the country required new methods matched to the new social values and the new social situation.

There is one obvious course for a new military strategy to take. If military leaders were convinced that the economic situation required firm

military leadership, and if they were further convinced that straightforward repression of workers, Church, press and the students would not work at reasonable cost, then they might well reject a few of the old military leaders, endorse the new egalitarian values, and seek to co-opt activity labor leaders and some elements of press, academia, and the church into a new military drive for an egalitarian society. In short, the military would shed its right-wing alignments which draw upon declining social groups and create a new coalition with rising groups. This would not be a purely Machiavellian move, because the new alignments would promote directions of development which leading sectors of Brazilian society increasingly agree to be necessary for Brazilian stability and modernization. The military would then perceive itself as having created the foundations for a modern economy in the period 1964-'79 and would argue that it was the indispensable midwife of a new phase of social development, a logical sequence to the earlier phase.

Even though the logic of such a new strategy flows fairly smoothly, this kind of strategic change could only be precipitated by major social problems. Old policies will persist until they run into a brick wall. The triggers of a new period of military socialism would be strikes which could not be completely suppressed, disorder in numerous cities, the emergence of sabotage and terrorism, and a very strong campaign by the Catholic Church and by foreign groups.

The new program of the military in this scenario would include rapid land reform, massive luxury taxes, capital gains and inheritance taxes, a steeply progressive income tax, pervasive price controls, and a freeze on higher salaries. There would probably also be a nationalistic reaction in this

period, with demands for higher Brazilian equity in sectors where foreign corporations held large shares, possibly a nationalistic reaction to the rescheduling of foreign debts, a strong third world orientation in foreign policy, and the emergence of much closer contacts with left-wing states of the third world. There might well be demands for worker participation in management, and there would certainly be a campaign to promote labor leaders to prestigious positions and to give social recognition to the importance of the labor movement. There would be drastic administrative changes in order to focus administration more on small and medium-sized farms and firms. Instead of building super highways to the largest farms and providing massive credit for which only the wealthiest farmers were eligible, there would be an emphasis on roads, agricultural extension, real credit for the small farmer, and so forth.

Particularly because of the administrative changes, this new strategy would initially be disruptive to the economy. However, over a period of time it would bring into the modern economy the 60 percent of the population who have hitherto been excluded. In so doing, it would greatly broaden the market for food and consumer goods and provide the prerequisites for a possible more broadly based economic takeoff in the future.

The egalitarian measures would be far more palatable, and the economy would be far more efficient, if accompanied by extensive institutional reforms of the kind often associated elsewhere with the more efficient military regimes. The economy needs to return to market interest rates, in order to allocate resources efficiently, and to positive interest rates, to stimulate saving. It needs to return to market prices, especially for farmers. As in

1964 inflation must be reduced, not just to reduce distortions but also to eliminate the price control and monetary indexing vureaucracies. The state firms must be controlled through an effective public sector budget. Management of the country must be decentralized by devolving power upon governors, funds to the provinces, and management decisions to individual enterprises. The state, except for the military, needs to be subjected to a vast anti-corruption campaign. Services need to be shifted from large, capital intensive farms and enterprises to smaller farms and enterprises which are labor intensive. None of this would be inconsistent with the egalitarian programs, except that some newly potent governors would likely seek to block some reforms, and indeed it would sweep aside much of the entrenched establishment opposition to egalitarian reform.

The principal risks to a military egalitarian program would be, first, a danger of a right-wing reaction within the military and, second, the danger that the programs would go too far, too fast, or too rigidly and that damage would be done to the economy in the manner of Peru's unsuccessful experiment with military radicalism. However, Brazil's tradition of pragmatism goes much deeper than Peru's did, Brazil's technocracy is much more sophisticated, and Brazil addresses its problems with far greater resources than Peru did. There is, therefore, substantial possibility that a program of military egalitarianism could be successful. It would likely be stable for a significant period of time because social justice is the overwhelming demand of today's political opposition. So long as this demand is being met, demands for democracy could likely be repressed. However, those demands would reemerge at a later date, just as they reemerged following the success of the economic stabilization and development program of the 1960s and early 1970s.

Egalitarian Democracy

If a period of military egalitarianism were successful, then eventually the population would take its success for granted and political goals would likely emerge as dominant ones. Supposing that the military leaders were as perceptive as Presidents Geisel and Figueiredo in the late 1970s, the military would again seek a route for smooth partial withdrawal to the sidelines of politics. However, the basis for democracy might well be much firmer following the period of military egalitarianism than it was following the period of military industrialization, 1964-'79. The conservative elite groups would have faded into the background during the period of military egalitarianism, and there would be a broad base of labor, farmer, and middle-class interest groups. The military would see egalitarian policies and broad-based political organization not as threats to the system but as fruits of its own labor. Thus, the principal risk on the left and the principal risk on the right to the perpetuation of democratic government would both have been removed. This does not mean that success would be assured. There will still be social conflicts. Major new economic issues might by that time have arisen. As General Chun Doo Hwan of South Korea has shown, ambitious military leaders can short-circuit trends toward democracy even in countries which have achieved egalitarian income distribution goals; in South Korea, accusations of corruption became the principal rationale for military intervention in politics. But, aside from the role of ambitious generals and the issue of corruption, the prospects for stable democracy would seem much greater in a relatively egalitarian period backed by the military than in a period of gross inequality and a nervous right-wing military.

Overview

Brazil enters the 1980s with greater resources, greater economic achievements, and a longer history of social peace than most of the Third World. It also enters the 1980s with a record of greater sophistication in dealing with its neighbors, with the big powers, and with multinational corporations than has been true of most of the rest of Latin America and most of the rest of the third world. To this extent, the theory that God is a Brazilian has continued support.

However, that theory will undergo substantial testing in the 1980s. At least the early years of the 1980s, and quite possibly the whole decade, will be a time of economic consolidation and social change rather than of growth miracles.