

BRAZIL Since 1980

THE WORLD
SINCE 1980

Francisco Vidal Luna
and Herbert S. Klein



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BRAZIL SINCE 1980

This is a general survey of Brazilian society and of the Brazilian economy and political system since 1980. It describes the basic changes occurring as Brazil was transformed from a predominantly rural and closed economy under military rule into a modern democratic, industrial, and urbanized society, with an extraordinary, world-class commercial agriculture in the past sixty years. In this period, Brazil changed from a premodern high fertility and mortality society to a modern low fertility and mortality one, the economy approached hyperinflation many times, and it abandoned a policy of protected industrialization to an economy opened to world trade. The advances and the failures of these changes are examined for the impact on questions of growth and equality. The book is designed as a basic introduction to contemporary Brazil from a recent historical perspective and is one of the first such comprehensive surveys of recent Brazilian history and development in any language.

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BRAZIL

Since 1980

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To

Ricardo, Eduardo, and Ryan Michael

Contents

<i>Abbreviations</i>	<i>page xi</i>
Introduction	1
1 Political Evolution	6
2 The Economy	37
3 Financial Sector	78
4 Agriculture	101
5 Industry and Mining	136
6 Demographic Change in Brazil Since 1980	158
7 Education, Social Welfare, and Health Care	182
8 Inequality: Class, Residence, and Race	209
Conclusion	236
<i>Appendix</i>	<i>243</i>
<i>Bibliography</i>	<i>253</i>
<i>Index</i>	<i>265</i>

Abbreviations

AGF	<i>Aquisições do Governo Federal</i> (Government Stock Purchase Program)
ARENA	<i>Aliança Renovadora Nacional</i> (Renovating National Alliance)
BCB	<i>Banco Central do Brasil</i> (Central Bank of Brazil)
BNB	<i>Banco do Nordeste do Brasil</i> (Northeast Bank of Brazil)
BNDES	<i>Banco Nacional de Desenvolvimento Econômico e Social</i> (National Bank for Economic and Social Development)
BNH	<i>Banco Nacional da Habitação</i> (National Housing Bank)
CAP	<i>Caixa de Aposentadoria e Pensões</i> (Retirement and Pensions Fund)
CAPES	<i>Coordenação de Aperfeiçoamento de Pessoal de Nível Superior</i> (Coordination of Training of Persons at University Level)
CEME	<i>Central de Medicamentos</i> (Medicines Central)
CMN	<i>Conselho Monetário Nacional</i> (National Monetary Board)
CNI	<i>Confederação Nacional da Indústria</i> (National Confederation of Industry)
CNPq	<i>Conselho Nacional de Pesquisas</i> (National Research Council)
CUT	<i>Central Única dos Trabalhadores</i> (Worker Union Federation)

CVM	<i>Comissão de Valores Mobiliários</i> (Securities Exchange Commission)
DGSP	<i>Directoria Geral de Saúde Pública</i> (Directory of Public Health)
DNER	<i>Departamento Nacional de Endemias Rurais</i> (National Department of Rural Epidemic Diseases)
DSNP	<i>Departamento Nacional de Saúde Pública</i> (National Department of Public Health)
EAP	Economically Active Population
EGF	<i>Empréstimos do Governo Federal</i> (Government Storage Loan)
EMBRAPA	<i>Empresa Brasileira de Pesquisa Agropecuária</i> (Brazilian Agricultural Research Agency)
FGC	<i>Fundo Garantidor de Créditos</i> (Fund to Guarantee Deposits – FDIC-type of institution)
FGTS	<i>Fundo de Garantia por Tempo de Serviço</i> (Guaranteed Fund for Length of Service)
FGV	<i>Fundação Getúlio Vargas</i> (Getúlio Vargas Foundation)
FUNRURAL	<i>Fundo de Assistência ao Trabalhador Rural</i> (Rural Retirement Fund)
GINI	Index of Inequality
GNP	Gross National Product
IAA	<i>Instituto de Açúcar e do Alcool</i> (Sugar and Alcohol Institute)
IAP	<i>Instituto de Aposentadoria e Pensão</i> (Institutes of Pensions and Retirements)
IBC	<i>Instituto Brasileiro do Café</i> (Brazilian Coffee Institute)
IBGE	<i>Instituto Brasileiro de Geografia e Estatística</i> (Brazilian Institute of Geography and Statistics)
IDB	Interamerican Development Bank
IDE	<i>Investimento Direto Estrangeiro</i> (Direct Foreign Investment)
IMF	International Monetary Fund
INAMPS	<i>Instituto Nacional de Assistência Médica da Previdência Social</i> (National Institute for Social Security and Medical Assistance)

INPS	<i>Instituto Nacional de Previdência Social</i> (National Social Security Institute)
INSS	<i>Instituto Nacional de Seguro Social</i> (National Institute of Social Insurance)
IPEA	<i>Instituto de Planejamento Econômico e Social</i> (Economic and Social Planning Institute)
LTN	<i>Letra do Tesouro Nacional</i> (Federal Treasury Bills)
MDB	<i>Movimento Democrático Brasileiro</i> (Brazilian Democratic Movement)
MERCOSUL	<i>Mercado Comum do Sul</i> (Common Market for Argentina, Brazil, Uruguay, and Paraguay)
MST	<i>Movimento dos trabalhadores rurais sem terra</i> (Landless Movement)
NGO	Nongovernmental Organization
OECD	Organization for Economic Cooperation and Development
ORTN	<i>Obrigações Reajustáveis do Tesouro Nacional</i> (Adjustable Obligations of the National Treasury)
PAEG	<i>Plano de Ação Econômica do Governo</i> (Plan of Economic Action)
PDS	<i>Partido Democrático Social</i> (Social Democratic Party)
PDT	<i>Partido Democrático Trabalhista</i> (Democratic Labor Party)
PETROBRAS	<i>Petróleo Brasileiro S.A.</i>
PFL	<i>Partido da Frente Liberal</i> (Liberal Front Party)
PGPM	<i>Política de Garantia de Preços Mínimos</i> (Minimum Prices Warranty Policy)
PIS/PASEP	<i>Programa de Integração Social e de Formação do Patrimônio do Servidor</i> (Financial Fund for Unemployment Insurance)
PMDB	<i>Partido do Movimento Democrático Brasileiro</i> (Party of the Brazilian Democratic Movement)
PNAD	<i>Pesquisa Nacional por Amostra de Domicílios</i> (National Household Survey)
PND	<i>Plano Nacional de Desenvolvimento</i> (National Development Plan)

PNUD	UNDP, United Nations Development Program
PRN	<i>Partido da Reconstrução Nacional</i> (Party of National Reconstruction)
PROALCOOL	<i>Programa Nacional do Alcool</i> (National Alcohol Program)
PROER	<i>Programa de Reestruturação e Fortalecimento do Sistema Financeiro</i> (Program to Stimulate the Restructuring and Strengthening of the National Financial System)
PROES	<i>Programa de Estímulo à Redução do Setor Público no Sistema Financeiro</i> (Program to Stimulate the Reduction of the Public Sector in the Financial System)
PSD	<i>Partido Social Democrático</i> (Social Democratic Party)
PSP	<i>Partido Social Progressista</i> (Social Progressive Party)
PT	<i>Partido dos Trabalhadores</i> (Workers Party)
PTB	<i>Partido Trabalhista Brasileiro</i> (Brazilian Workers Party)
RGPS	<i>Regime Geral de Previdência Social</i> (General Regime for Social Security)
SENAI	<i>Serviço Nacional de Aprendizagem Industrial</i> (National Industrial Training Service)
SNI	<i>Serviço Nacional de Informações</i> (National Information Service)
SUDENE	<i>Superintendência do Desenvolvimento do Nordeste</i> (Superintendency for Development of the Northeast)
SUMOC	<i>Superintendência da Moeda e do Crédito</i> (Superintendency of Money and Credit)
SUS	<i>Sistema Único de Saúde</i> (Unified Health System)
UDN	<i>União Democrática Nacional</i> (National Democratic Union)
UNDP	<i>United Nations Development Program</i>
URV	<i>Unidade Real de Valor</i> (Real Unit of Value) Parties

Introduction

Brazil today is the fifth largest nation in the world in terms of population and the size of its territory. It has the most advanced industrial base in Latin America and has become one of the world's most important agricultural producers. Much of what Brazil is today is the result of major transformations that have occurred only in the past quarter century. In 1980, it ranked poorly even among most Latin American countries in terms of the health and education of its population, it contained one of the region's poorest and most backward rural sectors, and it maintained a large but closed economy. Its primary exports were unprocessed raw materials, its industries, although quite important, produced only for the national market, and its political institutions were extremely fragile after passing through one of the longest periods of military rule in Latin American history.

In the past quarter century, Brazil has undergone profound social, economic, and political changes. For the first time in its Republican history, it has established a vibrant and functioning democratic system, free from military tutelage and the populist politicians who had created such profound instability in the previous century of republican rule. It was in this period that Brazil fortified its position in the world economy by becoming one of the largest international exporters of numerous agricultural products on the level of Canada, the United States, and Australia. This was also to be an epochal period of change when the Brazilian economy was finally opened up to the world economy for the first time in some fifty years. Although the period of protection had led to world leadership growth rates in the previous decades and had helped create a vibrant industrial sector second to none in Latin America, the oil crises and world depression of the late 1970s set the stage for a profound transformation in industrial and economic

policies. In response to the sharp declines in previously record growth rates, Brazil, along with many of the other developing countries of the world, adopted free trade in the hopes of reviving growth. All this began in 1990; it has become a part of public policy for both progressive and conservative governments since then and has led to major changes in industrial ownership and in the nature of the national economy.

The period since 1980 also was one in which Brazil completed the demographic transition of its population from a high fertility society with an extraordinarily rapid growth of its population to one of rapidly declining fertility and slowing growth. Coupled with long-term trends in declining mortality, this would bring the Brazilian population up to first-world standards of longevity. With industrial growth, a profound agricultural transformation, and long-term trends in urbanization, Brazil by 2005 had become one of the more urbanized and economically advanced of the developing societies in the world with a first-world mining and agricultural base. It also began to deal systematically with its basic social problems and, from the mid-twentieth century onward has invested heavily in education and public health. Today, Brazil on many indices has moved into the upper ranks of the world's developing countries in terms of health and education, finally reducing what had been until now one of the worst records in terms of literacy, even within Latin America.

What these changes have been, how they were accomplished, and what their impact is today on this continental society are the basic themes of this study. We try to explain in detail the factors behind each of these major developments, the context in which they occurred, and their consequences, both positive and negative. Our object is thus to provide the reader with a basic understanding of what Brazil has become in the world today.

Our survey begins with the most important single change that has occurred in the past quarter century, which is the establishment for the first time in Republican history of a viable democratic regime. To show how this has occurred, we examine the evolution of Brazil's political structure from the time of independence in 1822, through the empire, and into the republic in 1889. The so-called Old Republic, the Vargas period, and the long post-1945 period of instability and military intervention set the background for the slow and painful emergence of a new political system. With a relatively open party structure – which some have labeled weak parties – there has emerged a democratic regime that was able to resolve cases of death and impeachment of

presidents in office within a civilian constitutional framework. It also was able to carry out massive elections with no serious disruptions and brought to power traditional, progressive, and even radical presidents and parties, representing a gamut of classes, groups, and regions. The traditional elite rejection of democratic politics has slowly disappeared from the national political scene and the army has been controlled for the first time since the end of the empire.

We then examine the complex changes that accompanied the rapid expansion of the Brazilian economy from the arrival of the military regimes in the mid-1960s to the current period of relative growth. In this period, an effective national market was created and fully supplied by a protected industrial sector, with a result of sometimes extraordinary growth. But the price of this was a dependence on foreign capital for growth and an eventually uncontrollable inflation. Creating a national financial market and dealing with inflation became the key issues for all the governments of the period from the 1960s to the present. The harsh military regimes did effectively modernize the financial sector, but this still did not resolve the question of public debt and increasing sensitivity of the Brazilian economy to world economic conditions. The extraordinary industrial base was constructed by both public and private capital but at a high cost to the efficiency of the Brazilian economy. Finally, in 1990, the Brazilian economy was rapidly, and some might say brutally, opened up to the world economy, which has made for major changes in ownership and the loss of certain industrial sectors, followed by an expansion of industrial Brazil into the world market.

We then explore how these economic and financial reforms changed the one sector of the economy that was the most traditional and, in effect, one of the most important sectors in the nation – agriculture. In the period from roughly the 1970s to today, Brazil, the sleeping giant in world economic terms, has emerged as one of the great granaries of the world economy. How and why this occurred is the theme of our study of agriculture. Finally, we treat the profound transformation that Brazilian industry has undergone in the past quarter century. Already a well-established but highly protected sector of the national economy by the 1980s and the largest such industrial structure in all of Latin America, Brazilian industry in the period we are studying has experienced a fourfold shock of deregulation, privatization, the abolition of tariff walls, and a long overvalued currency. It also has been forced to compete directly in the international market. The

result has been a leaner but far more competitive sector, which has slowly emerged from the most difficult transition in its history. This increased industrial efficiency has had a particularly severe impact on the labor market and has been one of the more important factors influencing the increase in unemployment in the principal urban centers as well as the increase of the offer of employment of worse quality in the area of services that grew, in large part, in the informal sector.

As was to be expected, the modernization of the national economy in the past fifteen years has had a profound impact on the population of Brazil. In 1980, Brazil was only a moderately urban society and has now become a society in which 80 percent of the population resides in urban areas. The migration from rural to urban and from poor regions to rich ones has led to a major change in the distribution, as well as the quality, of the population, as the majority of the people have finally gained access to hospitals, schools, and other facilities previously denied to them. Better health and education have resulted from this migration, however chaotic its impact has been on the expansion of urban poverty. Brazil has improved its previously dismal record as being one of the more backward nations, even within the Americas, for literacy and average years of schooling attained by its citizens. At the same time, the government has become ever more committed to providing basic health and education to the population, both effectively through massive capital inputs into these sectors, as well as enshrining these ideas in the new socially conscious constitution of 1988. The creation of a national health system, the modernizing and expansion of the pension system, as well as federal efforts to equalize state education systems, in this recent period have all become important features of national policy of whatever government is in power.

In response to many of these changes, the national population has gone through the classic stages of a modern demographic transition. From the extraordinarily high rates of fertility and mortality, which were still evident in 1980, Brazil has moved to modern first-world rates as the population now experiences ever-declining levels of mortality and fertility. The result has been a very rapid rise in life expectancy and a rapid decline in population growth from some 3 percent per annum in the 1970s to just over 1 percent today. As in most of the modern world, Brazil is slowly moving toward below replacement fertility, with the result that its population is progressively aging, and its dependency ratios are also on the rise.

But these changes have not been uniform across classes, races, and regions. Although the gaps between rich and poor regions may have narrowed they still exist. We will try to both examine and explain these differences and their potential for change. We also show how the various regions have changed in this period through the massive out migration from the Northeast and the expansion of both older urban centers, as well as the rise of new wealthy agricultural regions of the West. But for all the economic, social, and demographic changes that have occurred since 1980, class structures have remained surprisingly rigid. The growth of all incomes in this period has not proceeded at a similar rate, and Brazil today remains among the most unequal societies on the face of the earth. Why growth and change have not led to decreasing inequality is an extremely important and unresolved issue, which we examine in our last chapter.

In undertaking this study we have had the sustained support of the Hoover Institution of Stanford University, and we would like to thank both John Raisian and Richard Sousa of this institution for their encouragement and help. We owe a special debt to Iraci Nero de Costa and Frank Smith for reading and critiquing the manuscript and to Matiko Kume Vidal and Judith Claire Heiser Schiffner for their constant encouragement from the beginning of our joint effort.

1

Political Evolution

Brazil went from being a colony to an empire in 1822 with relatively less conflict than occurred for most of the countries of Latin America in the nineteenth century. From 1822 to 1889, a legitimate monarchy governed the country and brought an unusual level of political stability. But the transition from empire to republic was not an easy one, and from 1889 to the present Brazil passed through several periods of centralizing and decentralizing regimes and slowly and hesitatingly moved from an oligarchic and limited democratic republic to a full democracy. But that long process from 1889 to the present was broken by military coups and military interventions and a political party system that was fragmented and incapable of sustaining and developing a viable political elite. It was the shock of a long and ruthless military dictatorship that finally created a climate of political compromise and democratic commitment that has enabled Brazil to emerge as a very powerful and well-structured democratic state in the past quarter century.

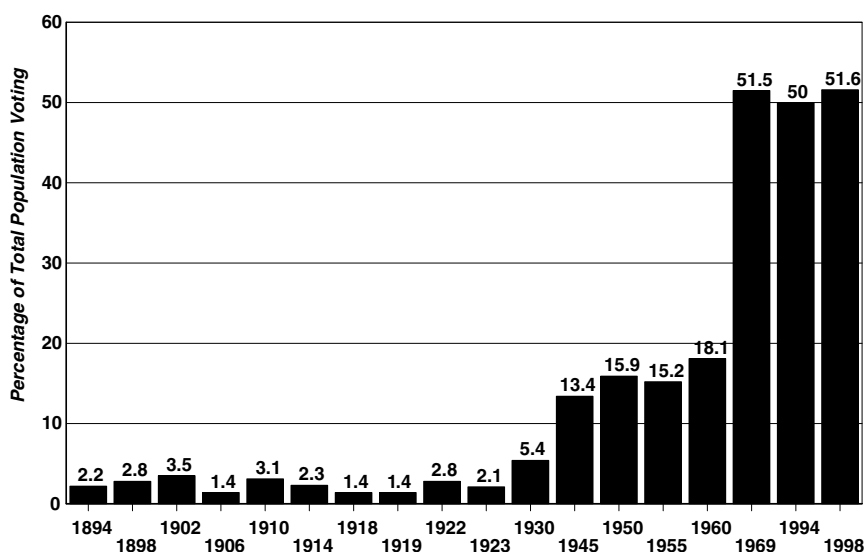
A recent commentator, when analyzing the 1998 election results, declared that they showed the strengthening of democracy in Brazil. But he said that perhaps it might never be possible to know if the new Brazilian democracy would pass through the final test, which would be the acceptance of Lula's victory and that of the Labor Party.¹ Four years later, Lula won the elections in a climate of total peace and assumed the government. At no time was the election outcome questioned or was there any risk of a setback in the democratic process.

¹ Leslie Bethel. Brasil: "Política no Brasil: de eleições sem democracia à democracia sem cidadania," in Leslie Bethel, ed., *Fardo do passado, promessa do futuro* (Rio de Janeiro: Civilização Brasileira, 2002), pp. 9–43.

Since Fernando Collor de Mello's election in 1989, four presidents have been elected through direct voting – without the typical traumas that had been traditional in presidential successions – which was an impressive progress for a country with a republican political history like that of Brazil. Between 1930 and 1985, only four presidents were elected through direct voting and only two concluded their mandate – one of them, Juscelino Kubitschek, under constant threat of a military coup. During this time, there were two long authoritarian periods, the longest one from 1964 to 1985, was a government totally controlled by the military.

Brazil has a long electoral history but little democratic tradition. Since the time of the Empire, periodic elections have taken place, but usually with little representation and usually with manipulated results. During the period of the Empire, there was a parliamentary system with elections. Although property qualifications existed for voters and officeholders, literacy was not an issue and, in fact, a fairly large sector of the male population voted. Despite a liberal ideology, political power was concentrated in the office of the emperor, who used his “Moderating Power” to create a powerful centralized state. The ministry responded to him, and the fear of a dismantling of the national state, and the slavery issue justified the centralization of power and the maintenance of Monarchy. Only after 1870 did effective criticism to the system emerge, with some declaring themselves republicans, and others demanding liberal reforms, such as increasing the right of suffrage and abolishing slavery.² In 1881 an important electoral reform took place, the repercussions of which would be felt for over a century. Several restrictions to the right of suffrage were eliminated, modifications were made in the income criteria, and direct elections were established for the first time, but the right to vote of illiterates – representing 80 percent of the population – was eliminated. This measure actually restricted the percentage of people capable of voting, in contrast to trends in other slowly evolving democratic states in Europe. Although high rates of illiteracy defined a Brazilian society during most of the twentieth century, the literacy restriction on voting would only be abolished in 1985, demonstrating the conservative character and indifference to basic popular education of the Brazilian elite.

² The abolition of slavery only occurred in 1888, which was late by the standards of the other American countries.



Graph 1.1. Proportion of the Total Population Participating in a Presidential Election, Brazil 1894–1998

Source: Jairo Nicolau. “A participação eleitoral no Brasil” (Working Paper, Oxford, 2002), p. 23.

In opposition to the Empire’s centralism, a clearly decentralizing constitution was approved with the fall of Monarchy and the implementation of the Republic in 1889.³ Power was transferred to regional oligarchies; elections became an important focus of power and were freely manipulated to meet the interests of groups in power. Elections were organized around essentially local state based parties. During the Old Republic, from 1889 to 1930, the number of voters was reduced further; with only some 2 percent of the population voting for President of the Republic, and with the vote still being open and subject to widespread fraud (see Graph 1.1).⁴

In 1930, as a response to the world economic crisis that seriously affected Brazil, the power of the regional oligarchies, led by São Paulo and Minas Gerais, was broken. Getúlio Vargas, former Finance

³ In Brazil, after its independence in 1822, there was instituted a monarchy, which was maintained until 1889, when it was replaced by a republic.

⁴ Jairo Nicolau, “A participação eleitoral no Brasil” (Working Paper, Oxford, 2002). p. 23. On the political evolution of Brazil, see Simon Schwartzman, *Bases do Autoritarismo Brasileiro* (Rio de Janeiro: Campus, 1982); José Murilo de Carvalho, *Cidadania no Brasil: O longo Caminho* (Rio de Janeiro: Civilização Brasileira, 2003); Florestan Fernandes, *A revolução Burguesa no Brasil* (Rio de Janeiro: Guanabara, 1987); Raymundo Faoro, *Os Donos do Poder* (Porto Alegre: Editora Globo, 1975).

Minister and the defeated candidate in the 1929 presidential elections, took power by carrying out a coup supported by elites in various Brazilian states. Although he initially tried to maintain the democratic process, Vargas moved toward an ever more authoritarian position, which culminated with the establishment of the Estado Novo (New State) in 1937. Vargas then established a right-wing dictatorship similar to the European Fascist models abolishing the existing parties and abandoning parliamentary government. There was political repression, with imprisonments, tortures, and deportation of political leaders. In the Fascist manner, a mass communication structure was created and censorship imposed through a new Press and Propaganda Department. With the hardening of the regime, military influence over the government also increased.

Vargas governed between 1930 and 1935 as *Interim* President, after closing local legislatures and dismissing state governors. He centralized power and named interventors to govern each state. In 1933 he allowed elections for a National Constituent Assembly that approved a constitution in mid-1934 and elected Getúlio Vargas president with a mandate to 1938. The constitution strengthened central power and had a distinct corporate flavor. It was proposed that the next presidential candidate in 1938 would be chosen through direct elections, with universal, secret balloting. But, as the new election date approached, Vargas abandoned elections, justifying his actions by stressing the danger of subversion from the right and the left. The government intensified its repressive mechanisms and, in 1937, closed Congress and installed a dictatorship, which lasted to 1945, when Vargas was deposed by the military.

During the Vargas period, the new power structure no longer represented the old oligarchies and the powerful groups involved in the coffee economy. New interest groups such as industrial leaders, technocrats, military officers, and newly emerging regional elites started to participate more actively in the power structure. But these regional elites now had far less power after Vargas implemented a strong federal government structure. The Vargas era, which thus lasted from 1930 to 1945, also deeply marked the whole second half of the twentieth century with its economic policies through its initiation of an active state intervention in the economy, both in terms of regulation and in terms of direct investment in the productive sector. Vargas believed that industrialization was critical to the country's future and could only be implemented through strong state support in the form of incentives,

subsidies, tariff protection, credits, and direct investments. Industrialization now became a national state objective. In addition to meeting the interests of industry leaders per se, this policy was seen by the military as a way of modernization the armed forces. During the Vargas era, and thanks to Brazil's support of the Allies in World War II, the U.S. Eximbank supported the establishment of a large state-owned steel company. Other large projects also were implemented, which had a major impact on the modernization of the Brazilian economy. This period also was outstanding in the establishment of public regulatory agencies to control vital sectors of the economy such as coffee, sugar, and alcohol, steel, water, and energy. Vargas also established a professional federal civil service to provide rationality and technical criteria in the federal public administration. But he also suppressed the autonomy of the urban labor unions that until then were quite strong, and at the same time implemented advanced labor legislation and reorganized the unions so that they were tightly linked to the public sector and eventually were coopted and controlled by the state. This was clearly part of the corporate model typical of the Fascist regimes. This robust and centralizing state structure, investing both in infrastructure and in several productive sectors of the economy, was the legacy of the Vargas Era and became a basic feature of the interventionist style Brazilian state, which remained the norm until the beginning of the 1990s.⁵

The Estado Novo began to falter by the early 1940s, and opposition, although often violently suppressed, was growing. There also was increasing military unrest, and the officers, many of whom were fighting on the side of the Allies in Italy, soon forced Vargas to promise to end the authoritarian regime after the end of World War II. At the beginning of 1945, Vargas agreed to set elections for the end of the year for the president and a constituent assembly, with elections for governors to take place in the following year. He also declared that he would not be candidate in the elections.

With the promise of the return to democratic politics and formal elections, three new parties were now formed that would dominate national politics until the military coup of 1964. One of them, the National Democratic Union (UDN), had a typically urban base and

⁵ For the Vargas period, see Boris Fausto, *A Revolução de 1930* (São Paulo: Editora Brasiliense, 1972); Sonia Draibe, *Rumos e Metamorfoses. Estado e Industrialização no Brasil: 1930/1960* (Rio de Janeiro: Paz e Terra, 1985); Maria do Carmo Campello de Souza, *Estado e Partidos Políticos no Brasil 1930 a 1964* (São Paulo: Alfa-Omega, 1990); Thomas Skidmore, *Brasil: de Getúlio a Castelo* (Rio de Janeiro: Paz e Terra, 2003).

contained the more conservative liberal forces, and was distanced from the government. The other, the Social Democratic Party (PSD), represented the support base of the Vargas government, including the remaining state interventors. Here, rural landowners and part of the industrial entrepreneurship also found representation. Vargas worked to create another party, which was called the Brazilian Workers Party (PTB), through which he intended to control the action of workers via the unions created in the Vargas period and controlled by the State. Both the PSD and the UDN named military candidates for the upcoming elections. General Dutra, was proposed by the PSD with the support of the PTB and Brigadier Eduardo Gomes, represented the UDN. What was unusual about these three parties was not only their selection of military candidates, but also the fact that for the first time in Brazil these were truly national parties as opposed to those that had existed before the Vargas period. Previous political parties were local state organizations and relied on interstate coalitions to develop national candidates.

In spite of his commitment to the electoral process, there was much distrust of Vargas's intentions. This distrust was based on the development, just before the elections, of a new so-called *queremista* movement, which called for Vargas to remain in power, a movement led by labor forces with communist support. This movement created major tension within both the political elite and the military, and as a result Vargas was overthrown by the military in October 1945 a short time before elections.

The Period of Fragile Democracy 1945–1964

In 1946 a new constitution was approved reestablishing democratic institutions and individual rights. As the overthrow of Vargas had not represented an effective rupture with the basic ideas and actions of his long regime, there was an accommodation of groups in power without significant modifications and without much participation of the popular masses. Although the new constitution recovered some autonomy for the states to meet regional interests, the centralized structure of power and the powerful federal institutions that had been the hallmark of the Vargas period were maintained. Dutra, who had been Vargas's Minister of War, was the first president elected through direct and universal elections, but without the participation of illiterates. The PSD,

a party formed by members directly involved in Vargas's government, won the election, supported by the PTB, which brought in the support of the trade unions to the government. The election of General Dutra, a person with no charisma, demonstrated the power of the official party machine and the prestige of Vargas himself who, despite his overthrow, was elected senator or deputy in several states in the same national elections. The UDN, which contained Vargas's political enemies and most of the military who carried out the anti-Vargas coup, had hoped to assume power with the election. But they were defeated in this and most of the subsequent elections in which they participated. This would be a party whose failure to achieve power democratically would eventually encourage it to advocate military interventions.

The Dutra government would prove to be a deeply conservative one. The labor movement was repressed and countless unions suffered intervention; the Communist Party, which had been authorized to function with the other political parties, was harshly persecuted and made illegal in 1947. On the international scene, the emergence of the Cold War led to a strong alignment with the United States, causing the break of diplomatic relations with the Soviet Union. Finally, Dutra isolated himself from groups with had strong links to Vargas, particularly the PTB.

But the next presidential election brought Getúlio Vargas back to power despite all the attempts to reduce his influence by the Dutra administration. Vargas had spent the time out of office reorganizing his political forces and adopted a clear populist position, with strong overtones of nationalism and a pro-labor stance. He launched himself as candidate with the support of the PTB and of a new Social Progressive Party PSP (Partido Social Progressista) that had emerged in São Paulo under the direction of Adhemar de Barros, who was a typical representative of the new populist politics that was being consolidated in the country. The PSD, that had been created by Vargas and had been part of the Dutra administration, split and one wing supported the Vargas's candidacy. The UDN, the firm enemy of Vargas, launched its own candidate, the same military officer that had already been defeated by General Dutra. There was tacit consent on the military side not to oppose the Vargas candidacy. Vargas was elected with 49 percent of the votes and was declared the winner. The UDN objected and declared that Vargas had not obtained an absolute majority but failed to persuade the country.

When Vargas took office, he tried to maintain the government industrialization program and otherwise proposed a rather conservative program. But he would eventually face serious political and social problems and had to deal with an increasingly severe inflation. There also were enormous difficulties in foreign affairs as the Cold War created major problems for Brazil. At the beginning of his mandate, friendly relations with the United States were maintained and he was even able to implement a major investment program managed by the Brazil–U.S. Mixed Commission (Comissão Mista Brasil Estados Unidos) and financed by the U.S. Eximbank. But political changes inside the United States paralyzed this important program that not only had helped finance major public projects but also was important in enabling Brazil to reach equilibrium in its balance of payments. During this same period, Brazil experienced problems in coffee exports after a severe crop loss forced international prices to rise, which resulted in a boycott by American consumers. Also, a powerful labor movement finally escaped the government's political control and began to pressure the administration. Vargas, who had begun his administration in a conservative manner, soon began to adopt a more aggressive and nationalist stance. He reorganized his administration and brought in the future president João Goulart – a young politician closely tied to the trade union movement. The government also enacted legislation hostile to new foreign investment. During the new mandate Vargas strengthened entities that were critical to the industrialization policy and created several institutions that still play a fundamental role in the economy, such as the National Economic Development Bank (Banco Nacional de Desenvolvimento Econômico), a fundamental entity in mobilizing financial resources for large public and private projects in the productive or infrastructure areas; Petrobrás, which for decades has held the monopoly of oil extraction and turned Brazil into a self-sufficient oil producer; and Eletrobrás, the holding company responsible for large electricity industry investment projects. In 1953, to meet worker demands, the government granted a 100 percent increase in the minimum wage, despite the opposition of his Finance Minister. By these actions, the government gradually lost its more traditional political base and suffered increasing political opposition. There also were problems with corruption and favoritism. Inquiries regarding an attempt against the life of main opposition leader, suggested involvement of people close to Getúlio Vargas. With increasing opposition and the growing possibility of a military intervention, Getúlio Vargas