Why did the Brazilian 'Economic Miracle' become the 'Lost decade'?
The Specificity of Capitalist Development in Brazil between the 1960s and the 1980s

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Abstract

The paper examines the Brazilian experience from the 'Economic Miracle' to the 'Lost Decade'. It argues that capitalism developed in Brazil under a *specific form* which sprung from its particular insertion in the 'world division of labour' as producer of raw materials. It proposes that during that period industrial capital accumulated there through the appropriation of a portion of the available ground-rent. This specific form of capital accumulation constituted a barrier for technological and socio-economic development in Brazil, since the appropriation of the ground-rent by industrial capital implied the production in a small scale for the domestic markets. The 'miracle' and the 'lost decade' are understood as concrete manifestations of that specific form of capital accumulation as well as expressions of its limited nature.

1) Introduction

By the early 1970s, the Brazilian economy was at its peak, after six years of strong growth and historically low and declining levels of inflation. A record that seemed even more remarkable when compared to the 1961-63 period during which inflation rocketed to reach 100% and Brazil almost defaulted on its external debt or with the 1964-7 years when the economy stagnated, real wages decreased and unemployment mounted. In fact, many observers were then speaking of a 'miracle'. Moreover, Brazilian policy-makers had such a confidence on the state of the economy that, when the quadrupling of the price of oil shocked the world markets in late 1973, they did not hesitate to claim that, despite importing as much as 80% of its oil requirements, Brazil would remain an 'island of prosperity' within a weak global economy.[2] And, indeed the economy kept growing, though not as fast as before, during most of the 1970s when a plan to deepen the industrial base by further substituting

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[2] Marcelo de Paiva Abreu, 'The Brazilian Economy, 1928-1980', Texto para Discussão No 433, Departamento de Economia, PUC, (Rio 2000), p. 117.

imports of industrial inputs (including energy) and machinery was implemented taking advantage of the massive financial resources available in the world markets. By the early 1980s, however, the situation was radically different and so was the mood among Brazilian policy-makers. The country was, as the rest of Latin America, heading for its most severe post-war economic crisis and nobody was talking about a miraculous economy anymore.

Different interpretations have been put forward to account for the nature of the extraordinary performance of the Brazilian economy from 1968 to 1973-4, its relative slowdown during the second half of the 1970s and the profound 1980s crisis. Orthodox authors, for instance, have signalled domestic policy-making as the single most important cause determining that trajectory. While they identify the 'miracle' with the orthodox macro and microeconomic policies implemented since the military coup of 1964, they relate the slowdown of the second half of the 1970s and, specially, the crisis of the 1980s with the more interventionist, debt-financed, import-substituting, measures implemented since 1974 to react to the worsening international economic climate.

Structuralist authors, on the contrary, have argued that the improvement of external factors, such as the terms of trade and the supply of credit, together with the expansionist policies implemented since 1967 were the reason behind the 'miracle' rather than the more orthodox ones of 1964-66. Likewise, they relate the 1980s crisis to the sharp reversal of these external conditions rather than to the economic policies implemented during the 1970s.

For *Dependentista* authors, finally, it was the structurally 'dependent' character of Brazilian capitalism what constituted a limit to sustainable and balanced, long-term growth. According to them, both the 'miracle' and the 'lost decade' were normal consequences of that kind of capitalist development. The 'miracle', they argued, was the result of both a favourable external context and local policies expanding the domestic market for non-durable consumer goods produced mainly by Multinational Companies (MNCs) through regressive distributions of incomes. The crisis, on its turn, was a result of both the worsening external conditions and the exhaustion of the domestic markets due to its inherently narrow base.

Undoubtedly, all these accounts offer useful analyses of several aspects of the Brazilian process of capitalist development. They fail, however, to grasp fully its specific determinations. Thus, orthodox authors are unable to answer why the military government implemented a 'right' set of policies in the late 1960s and a 'wrong' one during the second half of the 1970s. Structuralist authors, on they turn, are at odds in answering why could not the Brazilian economy supersede its dependence from primary goods exports or why did it suffer the lack of external credit more severely than, for instance, South Korea. Their *dependentista* counterparts, finally, have never provided a clear explanation to why, unlike in East Asia, MNCs established in Brazil, and in the rest of Latin America, to produce exclusively for the domestic markets, or why the Brazilian government did not successfully force them to act differently.

In brief, the foremost problem with these explanations of the Brazilian process of economic development is that they are mainly based on the analysis of the economic policies implemented there. In the best of the cases, the world process of capitalist development appears as the 'context' or the 'environment' to which the Brazilian economy adapts, reacts or integrates with more or less degrees of autonomy. In effect, despite their many differences, these accounts share one specific characteristic: they regard the process of capital accumulation as having a national content.[3] National public policies, however, are not an autonomous force that determines the specific structure of national processes of capital accumulation. On the contrary, they are the concrete form of realization of the unity of the global process of capital accumulation through the specific determination of each national portion of world total capital.

The aim of the present paper is to advance an alternative account of the trajectory of the Brazilian society from the 'miracle' to the 'lost decade'. It will be argued here that capitalism has developed in Brazil under a *specific form* which sprung from its particular original participation in, or determination by, the world division of labour as producer of raw materials. It will be firstly proposed that during the period after the Second World War capital accumulated in Brazil through the appropriation of a portion of the abundant mass of wealth available in the economy in the form of ground-rent.[4] Secondly, it will be argued that the appropriation of the ground-rent by industrial capital has implied its production in a scale particularly fragmented to the magnitude of the reduced domestic market and, therefore, this *specific form of capital accumulation* has constituted a barrier for technological and hence economic development. From this perspective, both the 'miracle' and the 'lost decade' are understood as manifestations of the historical development of this specific form of capital accumulation as well as expressions of its limited nature.

[3] Even *dependentista* authors fall pray of this when they attribute to 'peripheral' economies an abstract potentiality to fully participate in the development of society's productive forces that is allegedly blocked by the action/development of 'central' countries. They fail to understand that the former have lacked from this potentiality since they were engendered by the latter, and that they are as central to the world process of capital accumulation as them.

[4] For the original formulation of hypothesis based on the Argentinian experience, see Juan Iñigo Carrera, *La formación económica de la sociedad argetina*, (Buenos Aires 2007); Juan Iñigo Carrera, 'Estancamiento, crisis y deuda externa. Evidencias de la especificidad del capitalismo argentino', *Ciclos*, Vol. 23, No.12 (2002).

For this purpose, the paper is organised as follows. The next section sketches the alternative hypothesis about the specificity of capital accumulation in Brazil and then attempts an analysis of the trajectory of the Brazilian economy from the end of the Second World War to the late 1980s. The last section closes the paper with some comments on the characteristics of Brazilian long-term development.

2) The specificity of capital accumulation in Brazil between WWII and the late 1980s: An alternative approach

By the end of the Second World War, the Brazilian state, as many other 'developing' country states, began to take an active role in the promotion of industrialization. The methods used by the Brazilian state did not differ greatly, at least not qualitatively, from those implemented elsewhere. The subsidization, by different means, of industrial productions was the key method pursued by developing country states to achieve their *developmental* goals. Subsidies were allegedly used to compensate for the lower productivity of industrial labour due to the 'late-comer' status of these countries' industries and to speed up the learning and catching-up process.

Subsidization means that resources from other sectors of the national economy or from outside it are transferred to a specific branch, in this case the industrial sector, to promote its growth and development. Two issues then arise when analysing the Brazilian experience. First, there is the matter of the origin of the resources used to subsidise the industrial sector. Second, there is the question of duration of the process of subsidization.

It is sometimes argued that low wages were the key factor compensating for the low labour productivity and thus assuring industrial sector's normal profitability in Brazil.[5] But if low wages had been enough to compensate for the low labour productivity resulting from the internationally small scale of production and the use of obsolete technologies, Brazilian manufacturing firms would have produced for the world markets instead of the protected domestic ones. Resources from outside the economy, such as credit capital, though flew in Brazil since the late 1940s, were not quantitatively significant before the late 1960s. On the contrary, the idea that the resources used to subsidise the industrial sector came from the primary, notably agrarian, sector has received a much wider support.

[5] See Anglade (1985).

Indeed, it is generally agreed among specialists that economic policies in effect in Brazil between the end of WWII and the mid-1960s entailed a strong transference of resources from the primary to other sectors of the economy to promote industrialization.[6] It is also frequently suggested that these transferences continued during the post-1964 period, although with less intensity.[7] Strong differences arise, however, regarding the specific source and nature of these transferred primary sector resources.

Orthodox authors, for instance, have argued that resources transferred to the industrial sector originated in the 'agriculturalist's wealth'.[8] This opinion was shared, up to a certain extent, by some structuralist scholars, who referred to it as the agrarian 'surpluses'.[9] However, that could hardly be the case if those terms referred to a portion of the normal profits of agrarian capitals. The latter, as any other productive capital, would have, on average, withdrawn from that sector of the economy, or contracted its scale of production, if it was not normally valorising there.[10] Neither could those resources *normally* and solely come from the particularly low wages paid to rural workers (notably before the promulgation of the 1963 Rural Worker Bill).[11] On the contrary, those resources could *normally* come from the remaining portion of value contained in the commercial price of agrarian and mining goods and therefore received by the primary sector, the *ground-rent*.[12] In other words, only the extraordinary (surplus) profits (i.e. rents) available in the primary sector due to the monopoly over an irreproducible means of production (i.e. land), which take the form of ground-rent, could be *normally* transferred to the rest of the economy. Indeed, landowners, unlike agrarian and mining capitalists, had no choice but to 'accept', not without resistance,

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[6] See Syvrud (1974: 216-9); Graham, et al. (1987: 2-3).
[7] See Oliveira (1986: 91-109); Graham, et al. (1987: 17-8); Andrade Alves and Pastore (1978).
[8] See Gudin (1969).
[9] See Bacha (1978).
[10] On the contrary, agrarian production expanded continuously during the entire period under study. See Graham, et al. (1987). Moreover, as Bacha (1978: 144) noticed, the fast expansion of coffee production during the period of higher 'taxation' (i.e. 1947-1954) is an indication that normal profitability was not affected.
[11] Wage differentials between agriculture and industry do not necessarily imply the payment of the rural labour-force below its value. Urban wages are normally higher than rural wages for, at least, two reasons. First, the cost of reproduction of the urban labour-force is higher than that of the rural labour-force because the productive attributes (skills) of former are more complex than those of the latter. Second, rural workers need, ceteris paribus, to consume comparatively less use values than urban ones since they have lower expenditures in transport, clothing, housing, etc.
[12] Ground-rent is composed of two parts. First, differential rent which springs from the monopoly over portions of the planet with *differentially* favourable irreproducible natural conditions that allow lower production costs than those prevailing in world's marginal (i.e. less fertile or accessible) agrarian and mining lands for whose product there is a solvent demand. See Karl Marx, *Capital Volume III* (1981: 779-87). Second, the absolute rent which comes from the simple *absolute* monopoly of an irreproducible mean of production and is paid even for the use of marginal lands. The magnitude of the differential part of the rent paid for the use of a specific piece of land is determined by the difference between the natural conditions prevailing in that soil and those in the marginal lands. The magnitude of the rent of simple absolute monopoly is determined by landowners' bargain power of vis-à-vis industrial capital. See Karl Marx, *Capital Volume III* (1981: 882-907).

the loss of a portion of the ground-rent as a condition to unproductively consume the rest of it. Moreover, in the case of publicly owned mining and hydraulic lands, the state, the actual landowner, could transfer the rent to the rest of the economy without any conflict whatsoever.

In Brazil, as in the rest of South America, the subsidisation of the industrial sector with a portion of the ground-rent characterised the entire period under study (and arguably the subsequent one). This process, therefore, cannot be considered as a form of 'infant industry' promotion, as in East Asia during the 1960s and 1970s, notably when the largest recipients of that support were MNCs, and when it extended indefinitely. It was, on the contrary, a specific form of capitalist development.

3) The historical development of the specificity of capital accumulation in Brazil between the Second World War and the late 1980s: An Overview

The transference to, and appropriation by, industrial capital of a portion of the ground-rent took different forms over the period under analysis here. All of them, however, entailed the action of the state through its policies and institutions. In general terms, two types of mechanisms, indissolubly united, gave form to the process of transference to, and appropriation by, industrial capital of a portion of the ground-rent. On one hand, some policies, such as the combination of an overvalued currency and selective import taxes, allowed the direct appropriation of a portion of the ground-rent by industrial capital by lowering the price of inputs and protecting the markets for outputs. On the other hand, other set of policies transferred to industrial capital a portion of the ground-rent previously appropriated by the state through diverse forms, such as import and export taxes or the control over the foreign exchange market.

3.1) From National to Developmentalist Populism (1940s-1964)

Although several of the features that characterised the Brazilian economy during the post-WWII era might had been present before -e.g. the combination of an overvalued currency and market protection- it was only by the 1940s that the accumulation through the appropriation of a portion of the ground-rent began to take form through the action of state-owned companies and banks.

The overvaluation of the national currency, in effect during the entire 1947-1964 period, made exporters, almost all of raw materials, sell the foreign exchange earned in the world markets below its value, thus losing a portion of the sale prices which was mainly a part of the ground-rent contained in them.[13]

A large portion of that mass of value 'retained' in the foreign exchange market was directly appropriated by industrial capitals when purchasing foreign currency at particularly low exchange rates either to import equipment and inputs or to remit profits abroad, as was the case of MNCs.[14] This respectively lowered industrial capital's production costs and multiplied its profits. Nevertheless, the appropriation of the ground-rent through the overvaluation of the currency did not stop there, affecting only exported commodities. It had also the effect of reducing the price of primary goods sold in the domestic markets. This not only granted industrial capitals the possibility to purchase raw materials (e.g. iron ore, cotton) below their international prices but also to have access to a cheapened labour-force as several wage-goods (mainly food) circulated in the domestic markets below their prices of production (determined by the costs of production in world's marginal lands), thus further reducing their production costs and increasing their profitability.[15]

Furthermore, the overvaluation of the currency not only transferred resources from the primary to the industrial sector. A portion of the ground-rent retained in the foreign exchange market was, in a first instance, appropriated by the state either through import taxes paid with an overvalued currency[16] or the monopolist administration of the foreign exchange market, as was the case during the operation of the Auction System during 1953-61 when the average price at which the state sold foreign currency to importers was above that at which it had bought it from exporters.[17] This portion of the ground-rent also followed later its course to feed industrial capital's profits either through the public sector's budget (e.g. direct subsidies or tax exemptions) or the activities of publicly-owned companies and banks. The latter not only almost continuously provided industrial capitals with inputs and credit at subsidised

[13] See Iñigo Carrera, *La formación económica de la sociedad argentina* for the original account, based on the Argentinian experience, of the unity of this set of policies as forms of realization of this specific form of capital accumulation. For the analysis of the Brazilian case, see Nicolas Grinberg, 'From the 'Economic Miracle' to the 'Lost Decade': On the Role of Intersectoral Transfers and External Credit in the Process of Capital Accumulation in Brazil', *Brazilian Journal of Political Economy*, Vol. 28(2). (2008).
[14] Pedro Malan and Joel Bergsman, 'The Structure of Industry Protection in Brazil', *Revista Brasileira de Economia*, Vol. 24, No 2, (1970), pp. 151-5. See also, Antonio J. Avelãs Nunes, *Industrialización y desarrollo: La economía política del modelo brasileño de desarrollo* (Mexico 1990), p. 191.
[15] See João do Carmo Oliveira, 'Trade Policy, Market 'Distortions', and Agriculture in the Process of Economic Development: Brazil, 1950-1974', *Journal of Development Economics*, Vol. 24, No. 1 (1986), pp. 91-109.
[16] The overvaluation of the currency lowered the price of imported goods and therefore allowed importers to pay relatively high import taxes
[17] According to some authors, the mass of value appropriated in this way during the Auction System constituted an average of 15% of public expenditures. See Avelãs Nunes, *Industrialización y desarrollo*, p. 211.

rates[18] but also constituted, as the public sector administration, an ever expanding market for industrial goods either directly through their purchases, which usually involved significantly inflated prices, or indirectly through the private consumption of its over-expanded workforce.[19]

In effect, a large portion of the ground-rent materialised in the foreign exchange reserves and financial assets accumulated during WWII, together with that appropriated by the state in its aftermath and the funds borrowed externally, constituted the bulk of the resources used to nationalize, create and later expand the activities of state-owned companies and to finance the massive public investments made in social infrastructure (including the construction of Brasilia). Among others, the newly created public companies producing industrial inputs included Rio Dolce Valley Company (iron ore extraction), Petrobras (state monopoly for oil exploration, extraction and refining), Electrobras (generation and distribution of electricity) and the Steel National Company. Additionally, the National Development Bank (BNDES), the major public bank for infrastructural and large industrial projects, was founded in 1952.[20] Though, unlike private industrial capitals, public companies usually had technical scales comparable to those prevailing in the world markets, their accumulation capacities became, since their origins, limited due to their subordination to the requirements of cheap inputs and large markets for the formers.

The sharp increase in the price of primary goods and therefore in the magnitude of the ground-rent available for appropriation during the post-WWII and Korean War booms gave place not only to the creation of state-owned companies but also to the continuous expansion of local industrial production destined to cater the internationally small but highly protected domestic market.[21] In effect, several policies were implemented to protect the markets in which industrial capitals realised the appropriation of the ground-rent when selling their production. Between 1947 and 1961, when the currency was strongly overvalued, a system of import quotas (1947-53) or multiple exchange rates (1953-61), together with the Law of Similarity[22], protected the domestic markets by respectively reducing the supply or increasing

[18] Until 1966, the Usury Law set a 12% limit on nominal interest rates. With inflation rates averaging 27.5% in the period 1946-65 and only in 1948-9 below that figure, real interest rates were constantly negative. See Anglade, 'The State and Capital Accumulation', pp. 87-91.
[19] See Avelãs Nunes, *Industrialización y desarrollo*, pp. 193-4, 386-9.
[20] See Serra, 'Ciclos e Mudanças Estructurais', pp. 72-4; Werner Baer, *Industrialization and economic development in Brazil* (Homewood 1965), p. 61-8.
[21] See Baer *Industrialization and economic development*, p. 69-77.
[22] The Law of Similarity was promulgated in 1911 but was made an effective tool of industrial policy only in 1949. In principle, it forbade the importation of industrial goods that could be produced locally at the same price and quality of their international competitors. In practise, it functioned as a politically controlled instrument for

the price of foreign exchange used to import goods competing with local productions.[23] In contrast, imports of capital goods and industrial inputs not produced locally paid taxes which were usually lower than the degree of overvaluation of the currency.[24]

The combination of an overvalued currency, public sector activities and market protection constituted by then the main forms of transference of a portion of the ground-rent to a private industrial sector dominated by small nationally owned capitals and several MNCs established before the Great Depression. In effect, a portion of the ground-rent equivalent to as much as 60% of the economy's overall profits was appropriated directly or indirectly by private (mainly industrial) capitals and the state between 1947 and 1954, during Dutra's and Vargas' conservative and populist governments.[25]

The expansion of the domestic market that the growing ground-rent allowed was so remarkable that, by the mid 1950s, it began to attract several of the industrial MNCs which, by then, were searching for profitable investments in the developing countries. However, though consensus had already appeared among policy-makers, professional economists and the public opinion regarding the 'need' to promote foreign direct investment (FDI) in order to advance in the 'substitution of imports' and avoid 'external bottlenecks', the establishment of MNCs could not be fully stimulated by the nationalistic branch of the populist movement in power under Vargas' leadership. Its '*developmentalist*' sector managed then to gain control of the coalition that had been supporting the populist movement[26] and to impose Kubitschek as president of Brazil.[27] His *Target Plan* (1956-60) incorporated the promotion of FDI as state industrial policy after the Instruction 113 of the Superintendence of Money and Credit, implemented during Café Filho's short-lived provisional government[28], had authorized the importation of machinery without the recourse to foreign exchange and opened the door to

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market protection. See Baer, W. (1995), *The Brazilian Economy: Growth and Development* (Westport 1995), pp. 58-9.

[23] Malan and Bergsman, 'The Structure of Industry Protection', pp. 150-60. See also, Alexandre Kafka, 'The Brazilian Exchange Auction System', *The Review of Economics and Statistics*, Vol. 38, No. 3, (1956), pp. 309-12.

[24] Malan and Bergsman 'The Structure of Industry Protection', p. 173-4; Carlos Von Doellinger, et al., *A politica Brasileira de comercio exterior e sus efeitos: 1967-73* (Rio de Janeiro 1974), IPEA, p. 134, table VI.13.

[25] See Graph 1 below.

[26] These were the Brazilian Workers' Party (PTB) and the Social-democratic Party (PSD). Both were created in 1945 by different fractions of Vargas' regime to face that year's national elections. See Boris Fausto, *A concise history of Brazil* (Cambridge 1999), p. 230-1.

[27] See Thomas E. Skidmore, *Politics in Brazil, 1930-1964: an experiment in democracy* (Oxford 1986), p. 146-9.

[28] After Vargas committed suicide in 1954, Café Filho, the vice-president from the Conservative opposition, assumed the presidency. By then, president and vice-president were elected separately in Brazil and could belong to different parties.

the entrance of used (sometimes obsolete and already depreciated) capital goods.[29] In effect, in sharp contrast to the strategies followed in their countries of origin or in other regions of the world where they were then establishing, MNCs did not settle in Brazil with the technological conditions needed for the competition in the world markets.[30] On the contrary, they began to establish there with a scale particularly fragmented to the magnitude of the relatively small and protected domestic market. As genuinely small national capitals had been doing, MNCs compensated the extraordinary costs arising from their reduced scale of production and the use of outdated machinery through the appropriation of a portion of the ground-rent. Special subsidies and tax exemptions were added to the previously described forms of appropriation.[31] Moreover, in 1957 a tariff reform was implemented, introducing ad-valorem import duties which further increased the absolute level of protection of the domestic market and gave final shape to the protective structure.[32]

By the late 1950s, however, the mass of the ground-rent available for appropriation contracted significantly when the boom-promoted expansion of coffee plantation began to render fruits[33] and further deteriorated the balance of the already oversupplied world markets for that grain.[34] Economic growth slowed down and the reversion of most of the previous forms of appropriation of the ground-rent began to be implemented first by Kubitschek's government and later by Quadros, his successor from the Conservative opposition. After its accession to power in early 1961, the latter's government immediately devalued the currency[35] and reduced public sector expenditure with the intention to balance its budget. Under the argument that the devaluation of the currency had benefited the sector, 'contribution quotas' on coffee exports were then introduced as forms of appropriation of the ground-rent.[36] During that year, however, the mass of the ground-rent and the inflow of credit capital began to recover and so did the Brazilian economy. After only 8 months in office, and

[29] See Serra 'Ciclos e Mudanças Estructurais', pp. 74-5; and, Angus Maddison, *The Political Economy of Poverty, Equity, and Growth, Brazil and Mexico,* (New York 1992), p. 28.
[30] MNCs almost never exported more than 5% of their total production. In the case of US companies, this contrasted markedly with their strategies in Canada and Europe from where, by 1970, they were exporting around 20% of their local production. See Avelãs Nunes, *Industrialización y desarrollo*, p. 478.
[31] *Ibid.*, pp. 188-93.
[32] Baer, *The Brazilian Economy*, pp. 56-8.
[33] Coffee is a perennial crop which takes 5-7 to render fruits.
[34] The sharp rise in coffee prices during the Korean War had stimulated the expansion of production in Brazil (into the southern sate of Paraná) and in several African and Central American countries where natural conditions were relatively less favourable. Additionally, adverse climatic conditions were affecting the production of other crops during 1957/8.
[35] Though not to its parity of purchasing power. See Graph 3 below.
[36] Though some of those funds were used to stock part of the production in years of low prices, another portion of them, particularly in the case of coffee, ended up in the public treasury together with a portion of the proceeds of the sale of accumulated stocks.

without much opposition, Quadros unexpectedly resigned to his post and was replaced by Goulart, his vice-president from the PTB. The previous methods towards the appropriation of the ground-rent were then reinstated: the currency became strongly overvalued again, 'contribution quotas' on coffee exports were increased and began to be also applied to cocoa exports[37], public spending soared and public employees' wages increased.[38] The recovery was, however, short-lived. After three years of relatively robust growth, by 1963 the net inflow of foreign credit, which had been almost constantly positive since the end of WWII averaging 3% of the economy's profits and thus complementing the ground-rent, became negative. At the same time, particularly severe weather conditions were reducing local agrarian production and therefore the magnitude of the ground-rent available for appropriation.[39] With those extraordinary sources of value in sharp contraction and their requirement in expansion[40], the Brazilian economy stagnated. Moreover, with much of the public sector's revenues in contraction, its deficit increased. Its monetization rapidly fuelled the rate of inflation, at the same time that the reversion of capital flows and the stagnation of exports were creating a severe balance of payments crisis.

3.2) From 'Corrective Inflation' to the 'Economic Miracle' (1964- 1973)

The strong contraction of the magnitude of the ground-rent and its complementary sources of extraordinary wealth (i.e. the net inflow of credit capital) not only manifested in the stagnation of the economy but also needed to come about through the sharp reversion of those policies in which their appropriation had taken course. However, a populist government heavily supported by trade unions, as that of Goulart, could doubtfully administer such change in economic policies. In the height of the crisis Goulart did what was necessary to 'provoke' his own outset: against the advice of his Finance Minister he conceded a 100% wage increase for public sector employees and proposed an 'agrarian reform'. The response was immediate; on March 1964 a military coup, supported by the industrial bourgeoisie and

[37] Given the diversification of primary production into crops were the natural advantages (and therefore the ground-rent materialised on their prices) were relatively smaller (i.e. soybeans and oranges) than in the 'classical' tropical ones (i.e. coffee and cocoa) the strong overvaluation of the currency for exports became no longer the most convenient form of appropriation of the ground-rent.
[38] See Avelãs Nunes, *Industrialización y desarrollo*, p. 213-7.
[39] See Graph 1 below.
[40] This was determined by the difference between the local and world markets scales of production and its impact upon the difference between local and world markets production costs in the industrial sector.

the landowners, removed him without much resistance and installed a 'provisional' government that would last 21 years.

As soon as it held power, the new administration implemented the Program of Government's Economic Action (PEAG) whose several legs entailed the partial or total reversion of the previous policies that had transferred a portion of the ground-rent from the primary sector to the rest of the economy, in particular the industrial sector. The currency was devalued and import tariffs were proportionally reduced. A fiscal reform was implemented to balance public sector accounts. Tax collection augmented and the price of services and industrial inputs provided by state-owned companies were increased while public sector employees' wages were reduced, in a drive called 'corrective inflation'.[41] Moreover, the labour market was 'reformed' eliminating job stability clauses and private companies were 'induced' to apply a formula for wage adjustments that constantly underestimated the rate of inflation.[42] Lastly, the elimination of the Usury Law and the implementation of the indexation system ended with negative real interest rates, at the same time that credit from public banks was being curtailed, eliminating yet another source of resource transference to the industrial sector.[43]

With the ground-rent in contraction and its use partly diverted to service the external debt, the economy stagnated and the PAEG prolonged until the end of 1966. In fact, the Brazilian economy grew at an average rate of merely 1.6% between 1963 and 1967 which was not only well below the 7.5% average of the previous decade but also largely insufficient to create enough jobs for the rapidly increasing economically active population.[44] Moreover, inflation rates remained relatively high despite the sharp reduction of public sector deficit and aggregate demand.

By mid 1967, however, economic policies suddenly shifted direction and so did the performance of the Brazilian economy. After a change in the military leadership, a new Minister of Planning, Delfim Neto, was appointed and an expansionist set of policies was implemented. Credit to the private sector was expanded, under the 'structuralist' argument that high financial costs were one of the causes behind the stubbornly high inflation rates. Public sector investments in social infrastructure and industrial production were increased

[41] See Howard Ellis, 'Corrective Inflation 1964-66', in Howard Ellis (ed.), *The Economy of Brazil* (Berkeley 1969).
[42] See Avelãs Nunes, *Industrialización y desarrollo*, pp. 326-7.
[43] See Werner Baer and Isaac Kerstenetzky, 'The Brazilian Economy', in *Brazil in the Sixties*, Riordan Roett (ed.), (Nashville 1972), p. 115-6.
[44] See Samuel A. Morley, 'Inflation and Stagnation in Brazil', *Economic Development and Cultural Change*, Vol. 21, No. 3 (1973), p. 191. Also see, Breser, *Development and Crisis*, p. 104.

and exports were promoted through different means.[45] The economy responded and growth picked up to a yearly average of 13.8% between 1968 and 1973. Moreover, inflation decelerated notoriously to reach 13% by 1973, FDI in the consumer-durables goods sector recovered and industrial exports expanded rapidly responding to the battery of stimulus they were receiving.

The performance of the Brazilian economy was so impressive, especially the expansion of non-traditional exports, that led many observers to believe that the 'outward-looking' strategy pursued by the government was leading to a process of economic growth somehow comparable with that being experienced by several East Asian countries.[46] However, the differences between them were larger than their similarities. While the latter were specialising in productions for the world markets that required a relatively cheap and disciplined labour force (e.g. textiles, apparels), the bulk of Brazil's new industrial exports was composed of processed locally produced primary goods (e.g. orange juice, metals, cotton textiles, soy oils, etc.). Moreover, despite the high subsidies it received, the Brazilian industrial sector was, unlike its Asian counterparts, still exporting only a small fraction of its production.[47]

But, if the fast expansion of industrial production was the result of domestic market oriented expansionist policies rather than an export-led process, *where did the resources to put them into practice come from?* Moreover, if industrial capitals continued producing mainly for the domestic markets, *which were the sources of compensation for their still internationally high production costs during this stage of the Brazilian history?*

A substantial portion of the resources used to finance the expansionary policies and to sustain the profitability of industrial capital continued being made of the ground-rent, appropriated through a combination of 'contribution quotas', a moderate overvaluation of the currency and recently implemented export taxes.[48] The latter not only retained in the treasury a portion of the price of the internationally traded commodities which was in fact mainly a

[45] See Fishlow, 'Some reflections', p. 97-9.

[46] Bela Balassa, 'Incentive Policies in Brazil', *World Development*, Vol. 7 (1979), p. 1025-8.

[47] See Von Doelinger, et al, *A politica Brasileira de comercio exterior*, p. 95, table V.13. The automobile industry, for instance, exported only 1% of its production during the 'miracle'. See Francisco de Oliveira and Maria A. Travolo Popoutchi, *El complejo automotor en Brasil*, (Mexico DF 1979), p. 79, table 17.

[48] In 1966, while the currency continued its path of devaluation (i.e. became less overvalued), a Tax Reform created two new export taxes exclusively applied to primary goods. The first one, collected by the National Treasury, was made effective only to compensate for strong devaluations. The second one, the ICM (a value-added tax) collected by regional governments, remained constantly in effect until 1996, averaging 16-18% of the sale price. Though the ICM was in principle a tax applied to all sales both in the domestic and external markets, the ICM on exports acted, in practice, as an export tax, as value-added taxes were also charged on destinations. Moreover, acknowledging this duplication, in 1967 all non-primary exports became exempted from paying the ICM on exports. See Von Doellinger, *A politica Brasileira de comercio exterior*, p.29.

part of the ground-rent, as it was seen in the case of the overvaluation of the currency, but also reduced primary goods' domestic prices. This also applied to those primary goods which were only occasionally exported, such as beans and rice, as they were subjected to those export taxes on those occasions.

In fact, in 1967 due to a recovery in primary goods' international prices the magnitude of the ground-rent available for appropriation experienced an expansion and so did the portion seized by the state and the private industrial sector. Moreover, by the turn of the decade, the expansion of the agricultural frontier into the Centre-West region and the Amazon jungle was giving place to a substantial increase in agrarian production and therefore to the magnitude of the ground-rent available for appropriation.[49] The mass of the appropriated ground-rent jumped from 15% of the total profits in 1964 to 36% in 1967 and remained at around 20% during 1968-73.[50]

Nevertheless, the ground-rent was not the only source of extraordinary wealth by then available to the Brazilian economy to compensate for the particularly high costs of industrial production. In fact, since 1968 the increased liquidity in the international financial markets began to allow a sharp expansion of Brazilian external borrowing and the net inflow of credit capital became then strongly positive after five years of net payments.[51] Between 1968 and 1973 a mass of value equivalent to 5.8% of total profits entered the Brazilian economy in this form.[52] Though the great bulk of these funds were borrowed by the public sector, an increasing fraction began to be privately contracted. Publicly borrowed funds generally found their way to feed industrial capital's profits through the operations of state-owned companies and public commercial and development banks.[53] The former borrowed externally not only to finance their continuous expansion but also to cover the eventual operational deficits that emerged from the sale of their output at subsidised prices or the purchase of their inputs at inflated ones, as the newly created Inter-ministerial Price Council had decreed the end of the 'corrective inflation' and stopped the rise of prices charged by state-owned companies.[54] Public banks, on their turn, borrowed abroad and financed, either directly or through their loans to retail private ones, both industrial production and private consumption at below

[49] See Graham, et al., 'Thirty Years of Agricultural Growth', pp. 11-15.
[50] See Graph 1 below.
[51] Also, see John Wells, *Euro-dollars, foreign debt and the Brazilian boom*, Working Paper No. 13, Centre of Latin American Studies, University of Cambridge, 1973.
[52] See Graph 1 below.
[53] Jeffrey A. Frieden, 'The Brazilian Borrowing Experience: From Miracle to Debacle and Back', *Latin American Research Review*, Vol. 22, No. 1 (1987), pp. 104-8.
[54] See Avelãs Nunes, *Industrialización y desarrollo*, p. 378.

market interest rates, thus subsidising the industrial sector and contributing to the enlargement of the domestic market.[55] Finally, another portion of the borrowed funds was used to increase Central Bank's foreign exchange reserves, therefore sustaining the overvaluation of the currency.[56]

Finally, there was a third source of extraordinary wealth supporting the profitability of industrial production in Brazil during the 'miraculous' years: the payment of the local labour-force below its value. In effect, after 4 years of stagnation, a battery of policies and the repression of political and trade union activities[57], average real industrial wages in 1967 were 6% below their 1963 peak which they reached only in 1970.[58] Nevertheless, not all the Brazilian labour-force suffered the same fate during the 'miracle'. In effect, given the low average income prevailing in Brazil, the expansion of industrial production of durable-consumer goods during those years needed to be based on the enlargement of the domestic market through regressive redistribution of incomes.[59] As the wage contraction/stagnation, this could only take form through the actions of a repressive government. As a consequence, while the production of consumer non-durable goods grew by 9.5% average during 1968-1973, mainly due to an 'extensive' expansion of the domestic market (i.e. natural increase of population) and an increase in exports[60], the consumer-durable output, mostly destined to the domestic markets, expanded at an annual average rate of 24%.[61]

In summary, rather than experiencing a structural transformation, the previous specific form of capital accumulation was regenerated after the 1963-7 crisis. The particularity of the 1968-73 period arose, however, from the complementation of the ground-rent, in supporting industrial capital's profitability, by a massive net inflow of foreign credit capital and the payment of labour-force below its value. Indeed, industrial capital kept selling the largest portion of its production to a domestic market that, despite the claims of 'openness', continued to be highly protected by import tariffs and the Law of Similarity.[62]

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[55] See Frieden 'The Brazilian Borrowing Experience', pp. 109-122.
[56] See Baer (1995), pp. 390-1, table A4.
[57] See Bacha, 'Issues and Evidence', p. 52-55.
[58] See Graph 4 below. See Bacha, 'Issues and Evidence' (1977), p. 53.
[59] For indicators of increasing inequality in the distribution of national income during the 'miracle', see Baer, 'The Brazilian Boom', p. 6.
[60] 67.6% of the growth of the apparel and footwear sector and 45.3% of that of foodstuffs production were the result of export growth. See Wilson Suzigan, et al., *Crescimento industrial no Brazil: incentivos e desemenho recente*, IPEA, 1974, p. 162.
[61] See Batista, *Debt and Adjustment*, p. 164.
[62] Nominal protection to the durable and non-durable consumer goods in 1973 was 84% and 83% respectively. See Von Doellinger, et al. *A politica*, p. 134, table VI.13.

Nevertheless, a new form of appropriation of the ground-rent began to develop during the 'miracle': the promotion of industrial exports. Though granted to all non-primary goods exports, subsidies were proportional to the value-added and therefore differed greatly across sectors.[63] Consequently, industries exporting processed primary goods received subsidies that, on average, did not completely compensate the overvaluation of the currency. Their 'international competitive advantage' arose then from the purchase of inputs below international prices. In fact, subsidies in these cases compensated, on average, the effect of the overvaluation over the value-added by the processing industry. On the contrary, for consumer-durable and capital goods, and some non-durable goods exports, subsidies more than compensated for the overvaluation of the currency, acting, in practice, as a constant transference of social wealth. In 1971, for instance, subsidies to automobile's exports –the largest recipient- amounted to 35% of the FOB price while the currency was on its parity.[64] In effect, under the appearance of being an industrial policy implemented to expand the local export capacity, subsidies to the exportation of industrial goods became a new form of appropriation of the ground-rent and its complementary sources of wealth by industrial capitals, especially those of foreign origin.[65]

3.3) From the 'Oil' to the 'Debt' Crisis (1974–1982)

By the end of 1973, however, the forms of realization of the specificity of the Brazilian process of capital accumulation would change again when the magnitude of the two main sources of extraordinary wealth available to industrial capital suffered a strong increase after the 'oil shock' manifested in the sharp rise in the prices of raw materials and the expansion of credit supply in global markets. In 1974 the 'moderate' sectors of the military succeeded the 'hardliners' who had governed through the 'miracle'. A series of interventionist policies reminiscent of the populist era were then implemented. The currency was allowed to appreciate further and import taxes were augmented to compensate its increased overvaluation.[66] Legal regulations on wage adjustments were removed at the same time that political 'openness' was promoted and trade unions activities legalised. Real wages

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[63] The average 'genuine' subsidies were 17% of fob value of exports, ranging from 8% on woods products to 37% on apparel and footwear. See Jose A. Savasini, *Export promotion: the case of Brazil* (New York 1978), pp. 30-39.

[64] Calculated from Oliveira and Travolo Popoutchi, *El complejo automotor*, table 56, p. 178.

[65] As they were concentrated in those more value-added sectors, MNCs received the largest part of those subsidies. See Avelãs Nunes, *Industrialización y desarrollo*, p. 415-9.

[66] See Balassa, 'Incentive Policies', p. 1028-32.

augmented and the domestic market for consumer goods expanded accordingly, 'dependency' theorists notwithstanding.[67] Moreover, under the argument of being a response to the new international environment emerging from the quadrupling of oil prices, the government implemented the Second National Development Plan (NDP II, 1974-1979) to stimulate the production of industrial inputs (especially energy and metals) and capital goods by state-owned companies and MNCs respectively.[68] In addition, the promotion of industrial exports was enhanced through an increase in subsidies that more than compensated for the overvaluation of the currency.[69] The prohibition to export certain primary goods such as soybeans and cotton remained in effect, especially during the years of high international prices.

During the second half of the decade, however, the deceleration of the world economy that followed the increase in the price of oil started to take form in the slowdown of world demand for raw materials and the succession of expansions and contractions of global credit supply. The magnitude of the ground-rent available for appropriation then began a period of stagnation, only momentarily reversed during 1976-7 due to the sharp (though short-lived) increase of the international prices of coffee and cocoa. Though the expansion of the net inflow of credit sometimes compensated the stagnation of the ground-rent, their combined mass became increasingly insufficient to sustain the normal reproduction of the Brazilian process of capital accumulation.[70]

In fact, during 1975, the international recession that followed the 1973/4 rise in raw materials' prices and international credit supply resulted in their movement in the opposite direction. The combined magnitude of the ground-rent and net external credits available for appropriation contracted and rate of growth of the Brazilian economy decelerated consequently. Once again, the contraction of these extraordinary sources of wealth that had been sustaining the 'expansionist' policies took form in their reversion into more 'orthodox' measures. Both public sector expenditures (including some investments corresponding to the NDP II) and credit supply growth decelerated.[71]

[67] *Ibid.*, p. 1036
[68] Massive investments were made in the generation of hydro-electricity, oil exploration and its substitution by sugar alcohol. See Batista *Debt and Adjustment*, pp. 61-83
[69] Subsidies to exports jumped from an average of 19% of the FOB price in 1973 to 32% average during 1974-8. Computed from Antonio S.P. Brandão and Jose L. Carvalho *Trade, Exchange Rate, and Agricultural Pricing Policies in Brazil Vol. II*, The World Bank (Washington 1991), p. 2.
[70] See Graph 1below.
[71] See Balassa, 'Incentive Policies', p. 1029; Anglade, 'The State and Capital Accumulation', pp. 71-2.

The slowdown of the rate of growth during the second half of the 1970s was not, however, a linear process. On the contrary, it took form in the spasmodic evolution of GDP growth, following the evolution of the combined mass of the ground-rent and net external credit available for appropriation by industrial capital, and the realization of these movements through the alternation of expansive and contractive economic policies –the so-called 'stop and go' cycle allegedly 'administered' by the orthodox Finance Minister M.H. Simonsen.[72]

By the turn of the decade, however, things would go from bad to worse for the Brazilian society. By then, the stagnation of the ground-rent available for appropriation became an absolute contraction at the same time that the net inflow of external credit decreased from equalling 10% of total profits in 1978 to less than 1.7% in 1979-80. Nonetheless, the trajectory from slow and irregular growth to an open crisis was not straightforward either. The renewed expansion of foreign loans on relative low interest rates during 1978 and the recovery of the ground-rent during the first half of 1979 gave place to the idea that the increasing rates of inflation could be fought again with 'expansionists' policies. This brought Delfim Neto, the father of the 'miracle', back to the Ministry of Planning to administer them. This time, however, the context was rather different from that of 1967 and the space for expansionist policies got rapidly reduced. During the course of 1979 the second 'oil shock' took place. In this opportunity, however, it was followed by the increase in interest rates and the fall of non-oil primary goods' prices in the world markets. Consequently, the value of Brazilian exports contracted sharply while foreign loans began to dry up rapidly. Though the adjustment was momentarily postponed by spending a large portion of the accumulated foreign exchange reserves[73], by the end of the year the situation became unbearable and Delfim announced his 'Christmas Package' which, despite the government's still developmentalist rhetoric, was much in line with the IMF's orthodox recommendations. A maxi-devaluation was implemented and subsidies to exports and restrictions to imports were removed.[74] Moreover, the Law of Similarity, the symbol of the Brazilian ISI process, was eliminated, showing in fact that the ground-rent available for appropriation could no longer sustain the previous scale of industrial production.

The contraction of the net inflow of credit capital continued during 1980 and 1981, when the retraction of medium and long-term credits was roughly compensated by a sharp increase in short-term loans. Nevertheless, the Brazilian economy managed to growth

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[72] See, for instance, Balassa, 'Incentive Policies', p. 1028; Bresser Pereira, *Development and Crisis*, pp. 176-7.
[73] See Baer, *The Brazilian Economy*, p. 390-1, table A4.
[74] *Ibid.,* p. 97.

substantially during 1980, mainly due to the expansionary effect caused by the momentary undervaluation of the currency and the renewed use of foreign exchange reserves. In 1981, however, the further sharp reduction of the ground-rent available for appropriation was added to that of external credit. With those extraordinary sources of wealth in absolute contraction the Brazilian economy entered into a profound economic crisis. Economic policies became increasingly contractive and the government abandoned any attempt to hide their real content. In effect, when in 1982 the international crisis manifested in the sharp contraction of aggregate demand (and therefore of primary goods' prices) at world scale and credit supply to developing countries, the Brazilian economy was already in a profound recession.[75]

3.4) The 'Lost Decade'

During the second half of the 1970s, the clash of the Brazilian process of capital accumulation against the absolute limit imposed to it by the magnitude of the ground-rent and its complementary sources of extraordinary wealth available for appropriation manifested in the spasmodic evolution of the rate of economic expansion. During the 1980s it would express with all its strength. In effect, during the first half of the decade, the reversion of the flow of external credit and the reduction of the magnitude of the ground-rent manifested in the implementation of a contractive 'stabilization' programme designed with the agreement of the IMF.[76] The currency was sharply devalued, public expenditures (especially in infrastructure investments) were largely curtailed and state-owned companies increased the price of their output.[77] Nevertheless, despite its 'orthodox' rhetoric, the public sector's consolidated budget remained in deficit as revenues contracted and the expansion of external debt servicing could not be compensated for by cuts in operational expenditures.[78] Though a portion of this deficit was covered through domestic borrowing, the rest of it was monetized and fuelled the inflation rate which reached 221% in 1984.[79] The 'debt crisis' took then the form of an 'inflationary crisis'.

Nevertheless, by 1984-5 the Brazilian economy began to recover. This time, however, the appropriated ground-rent was hardly enough to support industrial capital's profitability. Industrial capital found, however, in the reduced industrial wages a new source of

[75] See Anglade, 'The State and Capital Accumulation', pp. 103-6.
[76] See Bacha (1986), pp. 225-33; Bresser Pereira, *Development and Crisis*, pp. 206-9.
[77] See Batista, *Debt and Adjustment*, table 5.18, p. 124.
[78] *Ibid.,* pp. 122-4, table 5.16, 5.17 and 5.18.
[79] The increase in the monetary base jumped from 56.9% in 1980 to 243.8% in 1984. See Batista, *Debt and Adjustment*, p. 107, table 5.6.

compensation for its low international competitiveness. Effectively, after several years of economic contraction and high inflation, real industrial wages were in 1984 20% below their 1980 peak value.[80] Furthermore, the circumstantial undervaluation of the currency was then acting as a barrier protecting the domestic market and subsidising exports of industrial goods.

With the recovery under way, the reversion of contractive measures was awaiting. However, after the contractive stabilization plan implemented in the previous years, this policy change could no longer be administered by the military regime. The economic recovery took form, then, in the return to a democratic rule in 1985 and the election of Tancredo Neves, a former minister of both Vargas' and Goulart's governments.

By early 1986, in effect, economic policies began to recover some of their pre-debt-crisis shape when the accumulation of reserves (due to the expansion of exports and the reduction of international interest rates) gave way to the implementation of the 'heterodox' Cruzado Plan in order to stop the spiralling inflation without contractive measures. Under the argument that inflation was 'inertial', prices were frozen at their February level in order to 'change' the public's 'expectations'. However, while the price of foreign exchange and public companies' output were immediately frozen (especially those of energy and other industrial inputs), wages received a previous 33% increase. Domestic consumption was thus expanded while industrial costs reduced.[81] By then, investments made under the NDP II on energy generation (taking advantage of Brazil's vast hydraulic resources) and in oil exploration had already matured and thus expanded the magnitude of the ground-rent available for appropriation. In fact, the extremely favourable natural conditions prevailing in Brazil to generate hydro-electricity implied that production costs of electric energy were there below their international levels. The potentially extraordinary profits arising from its production under those conditions were, nevertheless, transferred to the industrial sector through the provision of electricity at prices below their international level.[82] Indeed, this transference was of substantial importance for those energy intensive industries, such as metal making, aluminium production (where electricity accounts for one third of total costs), cellulose and chemicals, which expanded their exports significantly during the 1980s.

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[80] See Graph 4 below.
[81] See Baer, *The Brazilian Economy*, pp. 152-4.
[82] According to a study produced by Electrobras, "the average price of electricity for industrial consumers in Brazil was one of the lowest in the world between 1979 and 1986." See Batista, *Debt and Adjustment*, note 34, p. 94.

Under that base, economic growth continued during 1986 while inflation decreased substantially.[83] Through the end of the year, however, the magnitude of the ground-rent began to contract again after the second consecutive draught reduced the total agrarian production and the sharp fall in the world price of oil reduced the international costs of energy production and therefore the mass of the ground-rent arising from the generation of hydro-electricity. Furthermore, international interest rates were increasing again, increasing the drain of limited resources out of the Brazilian economy. The weakness of the latter became again evident. Controls on prices, especially from public companies' output, were eliminated and inflation rocketed as the government had not stopped monetizing its deficits.[84] The economy began to stagnate. Moreover, with the trade account surplus sharply reduced, Brazil could no longer service its massive external debt. In February 1987 it declared the unilateral moratorium on interest payments to commercial banks, further expressing the limits of the Brazilian process of capital accumulation.

Several attempts were made between the late 1980s and the early 1990s to curb inflation and bring the economy back on track but all of them failed. With the magnitude of the ground-rent in contraction and the outflow of external credit in expansion the economy was deprived from the two main sources of extraordinary wealth that had been sustaining the process of capital accumulation.

4) Concluding remarks

Despite the potential benefits of having access to a massive extraordinary source of social wealth to sustain industrial development, the accumulation of capital through the appropriation of the ground-rent had a negative impact on technological and therefore of economic development in Brazil. On one hand, when in effect, the overvaluation of the currency, though the most powerful form of appropriation of the ground-rent[85], made exports of non-primary goods almost impossible. It thus set a strong limit to the scale of industrial production and therefore to the application and development of technology.[86] On the other

[83] See Baer, *The Brazilian Economy*, pp. 154-5.
[84] See Eliana A. Cardoso and Rudiger Dornbusch, 'Brazil's Tropical Plan', *The American Economic Review*, Vol. 77, No. 2 (1987), p. 291.
[85] This is so because it hides the fact that a discriminatory expropriation of private wealth is taken place and it therefore multiplies the reach of the appropriation. Export taxes exclusively applied to primary goods international trade are openly discriminative against those productions as it is a tax charged on the property of land against one particular kind of private property. Moreover, unlike export taxes, the overvaluation of the currency allows the appropriation of the ground-rent when profits are remitted abroad.
[86] Morley and Smith, 'The Choice of Technology', p. 260-3.

hand, import taxes increased the domestic price of industrial goods and, therefore, also production costs, further weakening the competitiveness of the manufacturing sector in the world markets. Moreover, both export taxes and the overvaluation of the currency has also restricted the extensive and intensive application of capital in agrarian and mining productions and therefore technological development in these sectors.[87]

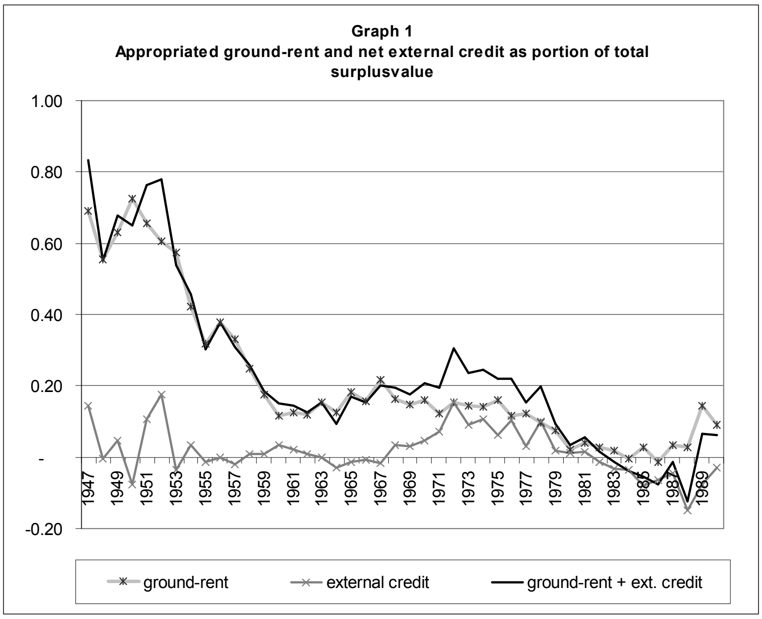
Nevertheless, the accumulation through the appropriation of a portion of the ground-rent presented several benefits for industrial capital, especially of foreign origin. In effect, industrial capital was not only able to normally valorise in Brazil (i.e. at the general rate of profit) without the need to invest a portion of its profits in scientific and technological development[88] but, in the case of the latter, it was also able to valorise fixed capital which, in several cases, was already obsolete and completely depreciated.[89]

It is suggested here that during the period under study, industrial capital, including that of foreign origin, maximised its profits in Brazil not through the competition in the world markets by means of technological development but through the appropriation of a portion of the ground-rent available in the economy. In doing so, it produced in an internationally small scale and retarded the development of the society's productive forces.

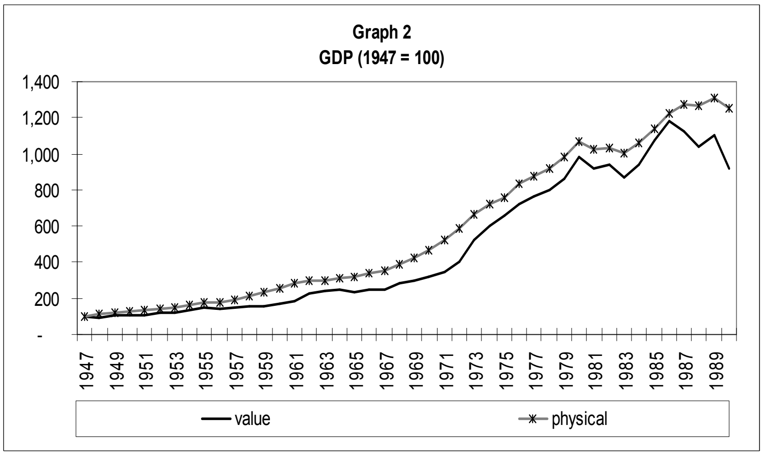
However, though attractive for industrial capitals, in particular of foreign origin, the sector's profitability and therefore the performance of the entire economy were structurally dependent on the evolution of the magnitude of the ground-rent and its complementary sources of extraordinary wealth, such as external credits,[90] available for appropriation to compensate for the increasing difference between the local labour productivity and that prevailing in the world markets, in turn resulting from the respective scales of production. In fact, as can be observed from the following two graphs, while these combined masses of extraordinary wealth grew at the pace of their requirement by industrial capital, as was the case during most of the period between the end of the Second World War and 1980, the

[87] Due to decreasing yields, the profitability of marginal lands and of intensive applications of capital into non-marginal lands became severely reduced.
[88] See Baer, *The Brazilian Economy*, p. 228.
[89] See Werner Baer, 'Technology, Employment and Development: Empirical Findings', *World Development*, Vol. 4, No. 2 (1976) p. 127; Avelãs Nunes, *Industrialización y desarrollo*, p. 191; Thomas Hurtienne and Jon Sperber, 'The Brazilian Model of Accumulation: Its Origins, Structure, and Crisis', *Latin American Perspectives*, Vol. 10, No. 2/3, p.126.
[90] In effect, between 1947 and 1981, the new loans contracted externally netted from the service of previously acquired external liabilities amounted an annual average of approximately 4% of the economy's total profits. The great bulk of those funds were publicly borrowed and used to finance the activities of state-owned companies and, between the late 1960s and early 1980s, also to sustain the overvaluation of the currency by constantly reposing those Central Bank's reserves drained through current account deficits.

production of social wealth in Brazil also expanded substantially.[91] Conversely, when the opposite occurred, as was the case during most of the 1980s, the Brazilian economy stagnated or even contracted. Furthermore, it can also be observed that while periods of stagnation, such as 1964-7, or slow growth, such as 1958-1960, were concurrent with the contraction or slow growth of both the mass of ground-rent and the net inflow of foreign credit capital, periods of fast growth, such as 1968-1974, were correlated with their sharp increase.



Source: Grinberg, *From the 'Economic Miracle'*

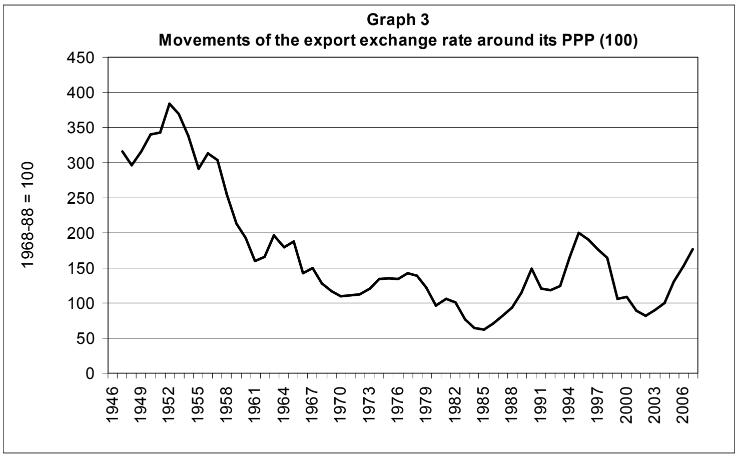


Source: Instituto de Pesquisa Econômica Aplicada

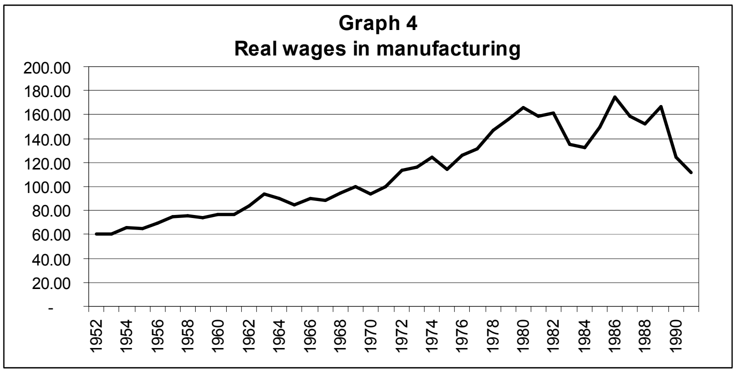
[91] In capitalism social wealth is not expressed in the quantity of goods and services produced (i.e. in physical terms as measured by the GDP at constant prices) but in their total value. For this reason, the total value of social production, measured by the GDP in local currency of constant purchasing power, is used here to measure the evolution of the magnitude of the Brazilian process of capital accumulation.

The analysis evolution of the Brazilian economy since the 1990s escapes the scope of the present article. It remains to be answered whether the changes in the policy-making experienced since then have implied a transformation of the specific pattern of capital accumulation or simply a change in its forms. One observation can be advanced, however. Despite the changes experienced in the workings of the Brazilian economy since the early 1990s, its performance has remained dependent on the evolution of the price of the commodities and the cost and magnitude of the external loans. Moreover, when, by 1994, both sources of extraordinary wealth recovered the currency became again strongly overvalued (Plan Real). By then, however, the protection of the domestic market was lower but also larger since the latter expanded to include the rest of the members of the MERCOSUR.

Appendix



Sources: Grinberg, *From the 'Economic Miracle'*



Sources: PIA - IBGE