

THE ROLE OF THE STATE IN DEPENDENT CAPITALIST DEVELOPMENT

THE ROLE OF THE STATE IN DEPENDENT CAPITALIST DEVELOPMENT:

THE CASE OF BRAZIL

BY

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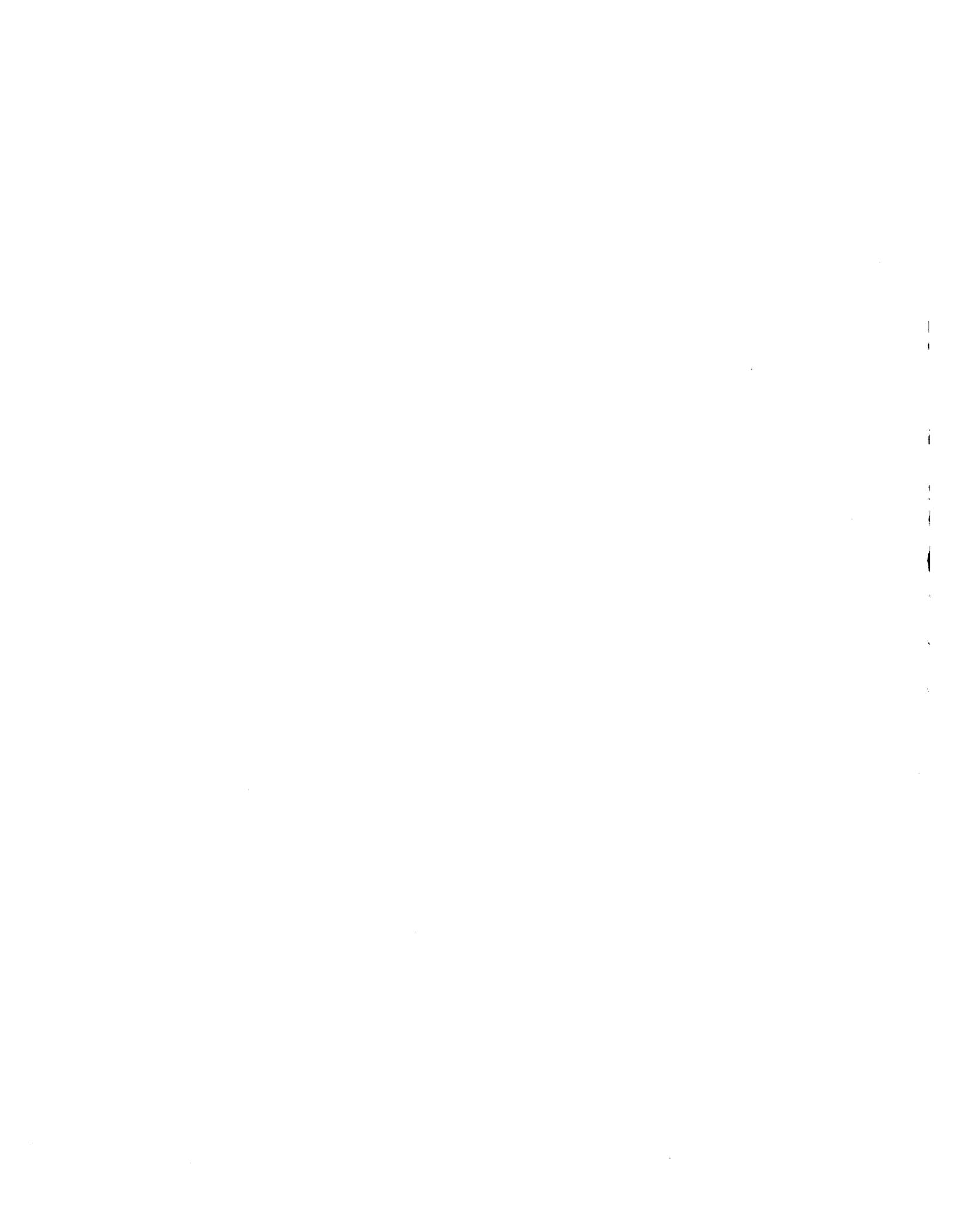
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## ABSTRACT

This thesis explores the utility of Marxist conceptions of the state in examining the relationship between the state and development in Brazil. The development of the state form in Brazil is analysed as a factor of dependent development. State-class relations, with respect to the ruling class and the subordinate classes, are examined to determine the logic of state intervention in Brazil's capitalist development. State intervention is seen both in its political context eg. as a coercive apparatus to contain class antagonisms, and in its economic context eg. as the means by which capital accumulation is facilitated. Finally the thesis takes into account the crisis of the state which is the result of the contradictions of dependent development. Through the study of the material conditions of Brazil's development and the role of the state in that process, it becomes evident that Marxist theory has much more to offer than traditional development theories assume.

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## INTRODUCTION

The role of the capitalist state can be determined only through the analysis of its relationship with the social and economic conditions underlying its development. Given such a premise it is the objective of this thesis to examine the development of the state and its relationship with the growth of capitalist production in a dependent capitalist social formation. This objective will be pursued through an analysis of the Brazilian state from 1889 to the present, and of the role of the state in Brazil's capitalist development during that period. The study will include the extent and limit of direct state intervention in the process of economic production, as well as the role of the state in creating the social conditions for capital accumulation.

There are four chapters which comprise the body of the thesis. In the first, a theoretical analysis of the relationship between the state and dependent capitalist development is constructed through the employment of Marxist conceptions of the capitalist state and of the process of development itself. The utility of such an approach will be illustrated through its direct application to existing material conditions in Brazil from the end of the nineteenth century to the 1980s. Chapters two through four will link the theoretical concepts developed in chapter one to the empirical study of a dependent capitalist social formation, illustrated in this thesis by the case of Brazil. The 'empirical' chapters have been organized logically, corresponding to successive phases of state intervention into the process of development in Brazil. They include an analysis of the social matrix of dependent production in each phase of development, as

well as a specific examination of the mode of state intervention, both in the sphere of economic production, and in the regulation of recurring political crises which it will be shown are endemic to dependent development.

While the focus of the thesis is on the role of the state in dependent capitalist development, it must be remembered that such a process is merely a specific form of capitalist development, subject to the same general laws which Marx viewed as determining capitalist development in all social formations. It is from these general laws that Marx's conception of the state is derived, and it is from an analysis of specific material conditions that such a conception can be given concrete expression.

## CHAPTER ONE

### THE ROLE OF THE STATE IN DEPENDENT CAPITALIST PRODUCTION: A CRITICAL ANALYSIS

#### Introduction: The "Underdevelopment" of Marxist State Theory

Marxist theory of the state has been characterized by several authors as being underdeveloped. Lucio Colletti makes this point in stating that, "we must realize that Marx's own discourse on the State never developed very far."<sup>1</sup> Consequently there is a "weakness and sparse development of political theory in Marxism."<sup>2</sup> Concurring with this view Norberto Bobbio suggests that, lacking such a fully developed theory, Marx's political writings be regarded as constituting "a necessary stage in the history of the modern state."<sup>3</sup>

The problem of historical specificity is seen as a shortcoming of Marxist state theory since Marx. Colletti raises this issue with regard to Lenin whose writings, despite their importance,

...are always tied so closely to particular historical events, that we can never extrapolate them to a level of generalization where they are simply transferable to an historical environment profoundly different from that in which Lenin thought and acted.<sup>4</sup>

This for Colletti is further evidence of the weakness of political theory in Marx. Colletti's position, however, understates the importance of specific material conditions in the development of Marxist state theory. Thus one author, in reference to Lenin and Gramsci, writes,

As Italy and Russia were not at all alike with reference to the sociological effects of the state, it is no accident that Lenin wrote State and Revolution while Gramsci wrote The Modern Prince.<sup>5</sup>

Reading Lenin, Gramsci and the like may, as Amy Bridges notes, enhance our understanding of the nature of the state in capitalist society.

It is a self-defeating task, however, to try to distill from their collected works a 'theory' of the capitalist state which will adequately explain the social reality of the late twentieth century, or address itself to our political tasks.<sup>6</sup>

The lack of an all-encompassing theory of the state is therefore not indicative of a weak or underdeveloped political theory in Marxism, as Colletti maintains. Rather, it is the fact that Lenin, to use his example, ties his analysis of the state to his own historical environment which distinguishes the Marxist approach from the idealist which makes, "the state into a transcendental reality which would exist by and for itself."<sup>7</sup> What is denied, or at least taken for granted, in the latter approach is the inextricable link between the political and the economic. For Marx the state can only be understood in terms of this fundamental relation. This is suggested in his preface to "A Contribution to the Critique of Political Economy".

In the social production of their life, men enter into definite relationships that are indispensable and independent of their will, relations of production which correspond to a definite stage of development of their material productive forces. The sum total of these relations of production constitute the economic structure of society, the real foundation, on which rises a legal and political superstructure and to which correspond definite forms of social consciousness.<sup>8</sup>

According to Marx this was the 'guiding thread' upon which rested his

understanding of "legal relations as well as forms of state."<sup>9</sup> In Capital III he elaborates on this point, explaining that the state can only be understood through an examination of the social relations within a given mode of production.

It is always the direct relationship of the owners of the conditions of production to the direct producers--a relation always naturally corresponding to a definite stage in the development of the methods of labour and thereby its social productivity--which reveals the innermost secret, the hidden basis of the entire social structure, and with it, the political form of the relation of sovereignty and dependence, in short, the corresponding specific form of the state. This does not prevent the same economic basis--the same from the standpoint of its main conditions--due to innumerable different empirical circumstances, natural environment, racial relations, external historical influences, etc., from showing infinite variations and gradations, which can be ascertained only by analysis of the empirically given circumstances.<sup>10</sup>

Two points are made in Marx's analysis. That the state appears in many variations and gradations depending on empirical circumstances, indicates that Colletti's criticism of Lenin is at least overstated. In fact, Lenin could not have written State and Revolution any other way. More importantly, Marx is arguing that the state is a political form which corresponds to the existing social structure. It is only through the analysis of this relation that one is able to address critical issues of Marxist state theory such as "the development of the state form" and "the structural limitations and possibilities of state action."<sup>11</sup> This suggests a relationship of dependence between the state and the social structure or as one author puts it,

Insofar as the legal and political superstructure is thus dependent for its existence on the divisions of ownership in the economic system, it is derivative and the latter primary.<sup>12</sup>

The concept of the derivative state should not be misconstrued as representing a mechanistic or reductionist analysis presenting "the political as a mere reflection of the economic".<sup>13</sup> As Holloway and Picciotto suggests, it was just such a misconception of the relation which gave rise to the whole debate, chiefly between Nicos Poulantzas and Ralph Miliband, over the notion of the relative autonomy of the state. Yet Engels has already illustrated that there is no contradiction between the state as corresponding to the social structure and the state as having certain independent functions. He wrote,

Society gives rise to certain common functions which it cannot dispense with. The person appointed for this purpose form a new branch of the division of labour within society. This gives them particular interests, distinct, too, from the interests of those who empowered them; they make themselves independent of the latter and--the state is in being. ...the new independent power while having in the main to follow the movement of production, reacts in turn by virtue of its inherent relative independence--that is, the relative independence once transferred to it and gradually further developed--upon the conditions and course of production.<sup>14</sup>

The autonomy which the state enjoys is thus 'derived' from the existing social structure, or as Engels terms it, "the conditions and course of production". This fundamental relation, which Marx refers to as his 'guiding thread', resurfaces in Lenin's State and Revolution where it is stated in more graphic terms.

The state is a product and manifestation of the irreconcilability of class antagonisms. The state arises where, when and insofar as class antagonisms objectively cannot be reconciled. And conversely, the existence of the state proves that the class antagonisms are irreconcilable.<sup>15</sup>

The particular form of the state will vary depending on the development of ]

the class struggle within a given social structure. Lenin's treatise, based on the experience of Czarist Russia, was a classic analysis of the state as a coercive apparatus. A study of the modern bourgeois state must naturally take into account the development of capitalism since Lenin, and the growing complexity of the state's role in that development. Thus the state must be examined not merely as an instrument of coercion, but as the means by which capitalist production is organized. The state also coordinates the activities of particular class fractions within the bourgeoisie in order to defend their common interest as a ruling class.

The state...is...the expression of a "Social Contract" among ruling-class members to be governed by a common representative of their interests as a whole in order to protect themselves from class-destructive internecine strife.<sup>16</sup>

The task of Marxist state theory is to examine how this 'Leviathan' functions within a particular set of social relations. Thus the remainder of this chapter will focus on the nature of dependent capitalism and the role of the state in that specific form of capitalist production.

Dependent, or peripheral production, evolved as a logical response to capitalist expansion which necessitated the integration of formerly isolated regions into the world market, dominated by the most advanced capitalism. Development in these less developed regions have been conditioned by the process of integration, giving rise to a form of production which remains capitalist, but which differs markedly in its historical development from that of advanced capitalism. An important distinction is the active role which the state plays in the accumulation process, a role which is explained in detail below. In addition, development under

dependent capitalism is conditioned by the interaction between two modes of production existing within the same social formation. This concept is referred to as the "contradictory unity"<sup>17</sup> of production; and stems again from the integration of peripheral social formations into the world market. The key factor in this integrative process was merchant capital which led to the development of the world market. A brief discussion of merchant capital is therefore helpful to the analysis of dependent production.

#### Merchant Capital in the Peripheral Economy

Merchant capital is capital which is accumulated through trade or exchange. Geoffrey Kay has identified three general features of this form of capital.

It has not direct control over the labour process and is always dependent upon the class which does, even where it dominates this class. Secondly, it must always engage in unequal exchange to appropriate part of the surplus product of society. Thirdly, as capital it is always driven to accumulate and in this way acts as a medium through which the law of value is brought to bear on all parts of the economy, particularly the sphere of production.<sup>18</sup>

The first two features are closely related. Its lack of direct control over the labour process stems from the fact that merchant capital accumulates wealth solely through a process of unequal exchange, or as Marx put it, "To buy cheap in order to sell dear is the rule of trade."<sup>19</sup> Because merchant capital functions in the sphere of circulation it can exist under any mode of production as long as there are products to be exchanged. For this reason merchant capital has existed since antiquity, and its character as Marx notes, does not change significantly from one epoch to the next.

Merchant's capital, when it holds a position of dominance, stands everywhere for a system of robbery, so that its development among the trading nations of old and modern times is always directly connected with plundering, piracy, kidnaping slaves, and colonial conquest....<sup>20</sup>

With respect to the modern era, merchant capital became dominant in the sixteenth century, "when it created the framework of the world market and laid the foundations of underdevelopment as well as development."<sup>21</sup>

Merchant capital creates the framework for development in the centre of the world market through its accumulation of capital "which sooner or later disrupts the social organization of production itself."<sup>22</sup> Yet, as stated earlier, merchant capital is, itself, capable of effecting the revolutionary transition to industrial capitalism. In fact, the relationship between commerce and industry is reversed so that industry revolutionizes commerce. As Marx put it, "Commercial supremacy itself is now linked with the prevalence to a greater or lesser degree of conditions for a large industry."<sup>23</sup> Or, conversely,

The less developed the production, the more wealth in money is concentrated in the hands of merchants or appears in the specific form of merchants wealth.<sup>24</sup>

It is the relationship of merchant capital to the production process which ultimately seals the fate of the former and makes inevitable its decline.

So long as merchant's capital promotes the exchange of products between undeveloped societies, commercial profit not only appears as outbargaining and cheating, but also largely originates from them.<sup>25</sup>

Thus while the production of commodities is a precondition for exchange, exchange remains a process independent of production in the precapitalist period.

Industrialization had a profound effect on the character of merchant capital, stripping away its independence and transforming it into a mere 'agent' of industrial capital. Circulation is no longer the mediator between producers. Rather circulation is incorporated into the process of production.

The production process rests wholly on circulation, and circulation is a mere transitional phase of production, in which the product created as a commodity is realized and its elements of production, likewise created as commodities, are replaced.<sup>26</sup>

Kay has noted that this change took several decades to take effect owing to the resistance of the merchant class. However, measures taken by the British government to establish free trade as the governing principle of international exchange dealt the final blow to the commercial monopolies.

It has already been noted that where merchant capital is dominant wealth is accumulated through plundering, piracy and conquest, illustrated as Marx suggests by the colonial economy.<sup>27</sup> Ernest Mandel explains that,

From the conquest and pillage of Mexico and Peru by the Spaniards to the sacking of Indonesia by the Portuguese and Dutch and the ferocious exploitation of India by the British, the history of the sixteenth and eighteenth centuries is an unbroken chain of deeds of brigandage which were so many acts of international concentration of values and capital in Western Europe, the enrichment of which was paid for, in the lateral sense of the word, by the impoverishment of the plundered areas.<sup>28</sup>

It was through these acts of piracy that the world market was created, ushering in a new global division of labour which greatly enhanced men's productive powers while at the same time creating a grotesque structure of exploitation and oppression.<sup>29</sup>

The transformation of merchant capital to an agent of industrial capitalism in Britain, and later Western Europe, had important consequences for the periphery of the world market which was to become the underdeveloped world. First, it precipitated the destruction of the internal economies of the colonies which were based on small scale agriculture and home industry. An example of this is the British penetration of India, and the disruption of its local economy.

English commerce exerted a revolutionary influence on these communities and tore them apart only in so far as the low prices of its goods served to destroy the spinning and weaving industries, which were an ancient integrating element of this unity of industrial and agricultural production.<sup>30</sup>

The destruction of local industry within the colonies thus eliminated local competition with imported goods from the industrial centre, and at the same time freed up local labour power which could be put to use in the mines and plantations operated by European trading companies. The underdeveloped world was the final preserve of merchant capital, where, as Kay explains, it could exist in its two historical forms simultaneously. "It remained the only form of capital present: but within the world economy as a whole it became an aspect of industrial capital."<sup>31</sup>

Merchant capital thus plays a key role, as the agent of industrial capital, in blocking the productive forces of the peripheral economies and perpetuating the underdevelopment of these areas. With the creation of a world market and the ascendancy of capitalist production as the dominant mode of production, an international division of labour is created which renders inevitable a "polarized development of the world's productive forces"

which entails "the expended reproduction of economic inequalities."<sup>32</sup> It is this polarized development of the productive forces which finds its expression in a 'grotesque structure of exploitation and oppression'. Charles Bettelheim indentifies two tendencies in the expanded reproduction of capitalism, one predominating at one pole of the capitalist world economy, the other at the opposite pole.

First he identifies "inside social formations in which the capitalist mode of production is predominant."<sup>33</sup> This social formation is characteristic of the developed countries at the centre of the world economy where the expansion of capitalist relations tends to dissolve other modes of production. What remains of noncapitalist formations is restructured and subordinated to the dominant mode of production. This secondary tendency within the predominant one is referred to as "conservation-dissolution". Bettelheim gives the example of agriculture as part of the conservation-dissolution process where capitalist social relations restructures farming in the developed countries turning it into a branch of industry. The second tendency is an inside social formation,

...in which the capitalist mode of production is not directly predominant, that is, in social formations that are capitalist social formations because they are subordinated to the capitalist mode of production through the world market (but in which other modes of production predominate), the main tendency is not to dissolution of the non-capitalist modes of production but to their conservation-dissolution.<sup>34</sup>

This social formation, which is characteristic of peripheral capitalist economies, is attributed to several factors resulting from the external domination of capitalism including:

... "blocking" of the development of the productive forces, constraint to a disadvantageous international specialization, "external" presence of centers of capital accumulation (toward which converges the capital that might have "revolutionized" the material and social conditions of production)....<sup>35</sup>

It can be said, then, that the structure of dependent production relations is the product of the meeting of capitalism with socially backward societies, "in which elements of the original society interlock with elements of the dominant society and 'assume very concrete internal forms of expression'."<sup>36</sup> The symbiotic relationship between capitalist and pre-capitalist production relations comprise 'the contradictory unity' of peripheral development which is an expression of the heterogeneous structure of the peripheral economy.

On the one hand, the non-capitalist production relations are a structural condition for the spread of capitalist production relations, but at the same time they represent an obstacle to this spread (e.g. the lack of an inner market). On the other hand, through the spread of capitalist production relations the non-capitalist are themselves produced and reproduced and, thereby, the spread is again blocked.<sup>37</sup>

Thus we return to Ziemann and Lanzendörfer's position that the distinctive characteristics of peripheral reproduction are its dependence on the world market and its structural heterogeneity which contribute to the structural distortion of its economic development, referred to as underdevelopment. What remains to be examined is the role of the state in this distinctive process of economic development.

#### The Role of the Dependent State

Wherever the development of modern industry has taken place, the state has played a major role. In the initial stages of industrialization

that role involved the facilitation of a process of primitive accumulation of wealth which made available to financiers and aspiring industrialists the investment capital necessary to develop the means of production. A precondition for this process is the gradual dissolution of non-capitalist social formations. This breaking down of the old mode of production constituted one of several 'moments' of primitive accumulation which laid the basis for capitalist development. It was in England that these 'moments', which included colonialism, the national debt, the modern tax system and protectionism, came together systematically at the end of the seventeenth century.

These methods depend in part on the brute force, for instance the colonial system. But they all employed the power of the state, the concentrated and organized force of society, to hasten, as in a hothouse, the process of transformation of the feudal mode of production into the capitalist mode, and to shorten the transition.<sup>38</sup>

Marx emphasizes the importance of the role of the state in each of these moments.

With respect to the colonies he suggests it is the monopoly of the market by the mother country which guarantees the vast accumulation of wealth for British manufacturing. The assumption of a national debt is also considered a powerful 'level' of primitive accumulation because,

...it endows unproductive money with the power of creation and thus turns it into capital, without forcing it to expose itself to the troubles and risks inseparable from its employment in industry or even in usury.<sup>39</sup>

By transferring money, borrowed from the rising class of financiers, into public bonds the state makes capital available to the nascent bourgeoisie on easy terms which is invested into the production process. Part of the cost of these loans is recovered through the increase of the tax base which

is a consequence of industrial expansion. The workers of course bear the burden of increased taxes.

The modern fiscal system, whose pivot is formed by taxes on the most necessary means of subsistence (and therefore by increases in their price), thus contains within itself the germ of automatic progression. Overtaxation is not an accidental occurrence, but rather a principle.<sup>40</sup>

On the one hand taxation is used to recover some of the costs of state loans. On the other, it is used to extend further credit to the bourgeoisie. For the workers it became necessary to earn a living to pay the taxes required by the state. Thus taxation aided in the creation of a labour force.

The expansion of manufacture, and later industry, required more than an initial outlay of capital. It required a constant supply of cheap labour. With the breakdown of feudal relations in the countryside and the expulsion of former peasants from the land (their means of subsistence), there was a large scale migration to the cities, already swelled by human remnants of the old craft industry. As Mandel illustrates the state was instrumental in compelling displaced peasants and craftsmen, along with women, children and the handicapped to meet the needs of the ascendent industrial class.<sup>41</sup>

The preponderant role played by the state in the process of primitive accumulation in Western Europe during the seventeenth, eighteenth, eighteenth and nineteenth centuries is referred to by Mandel as a 'statist' phase in capitalist development. What is significant for this study is that the statism of Western Europe, in Mandel's view, has its counterpart in the underdeveloped world. He notes that statism is 'revived' in the underdeveloped countries albeit in an entirely different context. The

statist phase of economic development in the periphery can be identified with what Kay refers to as "a new phase in the history of underdevelopment: the inception of a capitalist mode of production proper in the underdeveloped world."<sup>42</sup>

But capital could not wipe out its own history and begin as though nothing had happened previously: it was forced to operate in the conditions of underdevelopment which it had itself created: conditions that were quite different from those that prevailed in the developed countries in the eighteenth and nineteenth centuries.<sup>43</sup>

The difference in these new conditions has already been outlined: the persistence of pre-capitalist relations, of merchant capital in its 'quasi-independent' form and the dependence of peripheral production relations on the world market through their reliance on the export of primary commodities.

It is these conditions that give rise to a new state form; the dependent capitalist state. To the extent that the dependent capitalist state is, first and foremost a capitalist state, it will serve the same general function as the state of the developed countries, that is the reproduction of the capitalist mode of production. However, because the limitations placed on the dependent state differ from those placed on the state in advanced capitalist society, the means by which it pursues its general objective will, of necessity, differ as well.

The dependence of peripheral production on the world market, led by Western Europe and later the U.S.A., had a profound effect on the class structure of the underdeveloped countries. James Petras explains that,

The process of capital accumulation "from the outside" led to the growth of internal classes which grew in proportion to their capacity to extend and develop their external linkages.<sup>44</sup>

Because the interests of the imperialist centre were best served through the development of the primary export sector, the class with the strongest external linkages was the noncapitalist land-owning class. As a result the national bourgeoisie was weak and thus incapable of effecting, on its own, the transition to industrial capitalism. In fact, Hamza Alavi posits the notion that in most of the underdeveloped world any bourgeois revolution is imposed from without through colonial rule.<sup>45</sup> Accordingly the entire state structure is erected under the supervision of the 'metropolitan bourgeoisie' which seeks to create a superstructure capable of dominating all indigenous social classes. This state structure is referred to as the 'over-developed state apparatus', over-developed in comparison with the level of development of the productive forces. Alavi accurately perceives the indigenous bourgeoisie as being too weak to exert any significant influence on the 'bureaucratic-military state apparatus'.

A weak bourgeoisie, although unable to exercise power over the state, tends to strengthen itself through state mechanisms and state policies. Mandel suggests that, as a general rule,

...when the bourgeoisie is weak it always seeks salvation in protection by the state, that is, in the hope that, through the agency of the public authorities it may succeed in benefiting from a redistribution of the national income which will reduce its risks and increase its profits.<sup>46</sup>

In many underdeveloped countries the indigenous bourgeoisie, until the twentieth century, was not merely weak, it was virtually nonexistent. Thus the dependent state must do more than strengthen the position of the

bourgeoisie.

In fact, the birth of an industrial bourgeoisie in the underdeveloped countries is the combined result of state contracts, state encouragement in the form of guarantees, and plundering of the state treasury (particularly by corrupt civil servants and politicians).<sup>47</sup>

Whereas the state in Western Europe, during the early stages of its capitalist development, was concerned primarily with the development of a working class, the dependent state faced the task of facilitating the development of both a working class and an industrial bourgeoisie. This factor contributed to the delayed development of capitalism in the periphery.

The reproduction of a capitalist class structure is crucial to the linking of the world market with the national economy which Ziemann and Lanzendörfer view as a function of the peripheral state as an economic production unit.

In the context of internal class structure and external dependence, the state in underdeveloped capitalist societies is primarily an agent of transmitting the global dynamics of the international division of labour to the national level and of reproducing the internal class and political power structure according to these dynamics.<sup>48</sup>

Thus the dynamics of the international division of labour, which facilitates the full development of capitalist relations within the advanced capitalist countries, serve to block such a development in dependent formations in which a precapitalist class plays a dominant role owing to its extensive links with the world market. The state must make a pact with the landowners, reinforcing the structural heterogeneity of the economy through price support systems for primary exports and a varying degree of agricultural reform to prevent rapid social upheaval. In fact, this pact is made to forestall the disintegration of precapitalist forms which result from

the expanded reproduction of capitalist relations in the underdeveloped world. At the same time, it is the task of the dependent state, in its early stages "to clear the way for the implantation and extension of capitalist relations of production."<sup>49</sup> Thus the contradictory unity of peripheral production is maintained.

Another important function of the peripheral state as an economic production institution is that of "securing the existence and expansion of the world market in the national economic area."<sup>50</sup> Crucial to this objective is the development of an infrastructure, including railways, roads, canals, communication networks, etc., which will facilitate the accumulation process. As the capital invested in infrastructure involves a minimal direct return, in the form of surplus value, it is viewed, to use Marx's term, as 'sunk capital'. The bourgeoisie, naturally is reluctant to invest under those terms.

Then capital shifts the burden on to the shoulders of the state; or, where the state traditionally still takes up a position superior to capital, it still possesses the authority and the will to force the society of capitalists to put a part of their revenue, not of their capital into such generally useful works....<sup>51</sup>

In the peripheral society, a weak bourgeoisie is unable to provide the massive amounts of capital necessary to the development of an infrastructure. Further restrictions are imposed by the unfavourable terms of trade which the underdeveloped country endures at the hands of merchant capital. As a result investment must come from the imperialist centre, usually in the form of loans to the dependent state which must in turn develop an infrastructure using technology and machinery purchased from the country supplying the credit. It is in low profit sectors such as infrastructure that

the state is first employed as an economic production institution to offset the costs of production by cheapening the elements of constant capital (e.g. machinery and technology). As the dependent economy develops, the state extends its influence into industrial inputs such as energy and basic metals to supply the foreign-dominated manufacturing sector. Thus,

State intervention is also functional in this sense insofar as it tends to take over operations involving a high organic composition of capital\* (and low rates of profit) which are thus withdrawn from the process of equalization of the rate of profit, ensuring the maintenance of adequate average profit levels.<sup>52</sup>

This general rule applies to the state in all capitalist societies, but takes on a special significance for the dependent state which reinforces its dependence through this process. Lenin referred to this form of dependent state as a semi-colony "which, officially [is] politically independent, but in fact, [is] enmeshed in the net of financial and diplomatic dependence."<sup>53</sup>

Not only does the peripheral state function as an economic reproduction institution, but also as a political reproduction institution. It is important, however, not to perceive these as separate functions, but as two aspects of the same role played by the state in the reproduction of peripheral capitalism. The political role of the state is made necessary by the fact that,

The heterogeneous, world-market-dependent reproduction process produces and reproduces a fragmented and unstable class structure and a relative social weakness of the classes, fractions of classes, and groupings in the nation.<sup>54</sup>

Because it is initially the precapitalist landowning class that generates accumulation through its links with the world market, it is the politically

\*Operations which involve a high level of investment in machinery and technology.

hegemonic class in the early stages of dependent development. This hegemony is called into question as the state appropriates enough of the landowners' surplus to create the general conditions for the penetration of foreign capital. Such a development fosters industrialization in the urban centres which formerly served only as export terminals for agricultural production. Industrial activity creates the basis for new class formations which increasingly challenge and undermine the political hegemony of the precapitalist landowning class. The continued reliance of the state on the surplus generated by the precapitalist sector, however, prevents the total subsumption of the landowners to the new industrial sector. Competition between these class fractions intensifies and can only be resolved through the mechanism of the state, leading to a concentration of power in the state apparatus. Alavi makes this point with reference to the post-colonial state.

At the moment of independence weak indigenous bourgeoisies find themselves enmeshed in bureaucratic controls by which those at the top of the hierarchy of the bureaucratic-military apparatus of the state are able to maintain and even extend their dominant power in society, being freed from direct metropolitan control.<sup>55</sup>

One of the key political roles of the dependent state is that of "guaranteeing the cohesion of the social structure, which is continually threatened by its own dynamic."<sup>56</sup> This can be taken as a virtual paraphrase of Lenin when he refers to the state as a product and manifestation of the irreconcilability of class antagonisms in State and Revolution. The dynamic of dependent production pits a weak industrial bourgeoisie against a powerful yet declining precapitalist landowning class. The struggle between these two class fractions is diminished, but not extinguished, with the development of a modern proletariat which threatens the stability of the entire

peripheral production process. The level of inter- and intra-class antagonism vary according to the material conditions at a given historical moment.

The state must also play the role of mediator in disputes between national capital, including all its competing fractions, and international capital with its representative states. This is the political equivalent of the state as mediator between the world market and the national economy. Ziemann and Lanzendörfer refer to this role as 'the political mediator of the economic grip' which again reflects the dependence of peripheral production within the world market, and which suggests that the capacity for the dependent state to successfully represent its national interest (e.g. the interests of the competing fractions of the dominant class) is more constrained than that of its counterpart in the advanced capitalist countries.

The dynamics of peripheral production give rise to a state form which possesses a degree of relative autonomy, yet as Alavi suggests this relative autonomy assumes a distinctive form as a consequence of its links with the imperialist centre in the form of military and economic aid.<sup>57</sup> The relative autonomy of the dependent state enables it to appropriate a portion of the economic surplus of production which is necessary for the promotion of economic development by the state. Its predominant role in economic development arises from the inherent weakness of the industrial bourgeoisie as outlined above. However, the very dynamic which reproduces peripheral capitalism and compels the dependent state to engage in the promotion of economic development also draws the state into an ever-intensifying crisis which manifests itself ultimately in the form of chronic political instability, only to be contained through one form or another of

dictatorship. Dependent production, therefore, gives rise to a state form fraught with weaknesses which preclude the viability of bourgeois democratic institutions such as political parties, interest groups, independent trade unions, etc. Petras maintains that this institutional weakness is not simply a consequence of an 'underdeveloped' society.

The lack of influence of this institutional configuration is an expression of a more fundamental weakness of the ruling classes the lack of "legitimacy" of the ideology or values of the dominant class within which parties and narrow-focus interest groups can grow.<sup>58</sup>

The state must represent the dominant class directly using cooperation and repression to maintain strict social control over all other social groups.

However, the dependent state is unable to perform this function consistently, owing to the fetters placed on it by the peripheral production process. Factors such as the blocked development of the productive forces and the dependence of peripheral production on the world market restrict the resources available to the state. The blocking of the productive forces effectively limits productivity diminishing the returns to the government. Similarly, the dependence of peripheral production on the world market "puts parts of the economic base outside the state's influence and lets substantial share of the financial and material resources flow away..."<sup>59</sup> This not only restricts the state in terms of its social control function, but also hampers the role of the state as an economic production institution. As a result the dependent state becomes ever more reliant on economic and military aid from the developed countries which creates more serious debt problems and intensifies the crisis further.

Dependent production, therefore, requires a state form which is increasingly interventionist. It is both the strength and weakness of the

peripheral production process. Its strength lies in its ability to maintain and develop the productive forces, both capitalist and non-capitalist, "by massive intervention combined with inflating the state apparatus."<sup>60</sup> At the same time labour organizations are incorporated into the political system increasing their vulnerability to state coercion or manipulation. For a time measures such as limited social welfare and increased wages and incomes are offered as conciliatory gestures toward the working class. However as Ziemann and Lanzendörfer point out, these measures can only be temporary, as they hinder state development policies by restricting the level of financial support available to private capital. As a result greater repression is required to restore "business confidence" in the state. "The non-bourgeois form is the only one adequate to the bourgeois function of the state."<sup>61</sup> Herein lies the structural weakness of the dependent state.

The investment pattern of international capital tends to exacerbate the crisis of peripheral production by displacing more workers than it absorbs. The import of western technology disrupts local craft industries and subsistence farming, adding fuel to the process of primitive accumulation, and creating large numbers of employed, but "free" labourers. A substantial proportion of the capital accumulated at the periphery flows back to the imperialist centre. Thus "capital inflows employ few workers, whereas capital outflows prevent the reincorporation of workers ejected from preimperial economic pursuits."<sup>62</sup> In this case the very development which the state facilitates becomes an obstacle which must be overcome.

The contradictory and incoherent societal reproduction of the periphery does not lead to a permanent reproduction of its own postulates and conditions, on the contrary, it produces on the one hand a permanent economic crisis in the shape of an unbalanced economy, on the other, a permanent political crisis in the shape of a political imbalance.<sup>63</sup>

The state response of increasing intervention fails to overcome this crisis. It merely aggravates the contradictions further, forcing an even greater level of intervention by a bureaucratic-military state which is, of necessity, even more authoritarian. "These relations between state and society constitute the real substance of the 'centrality' of the peripheral state."<sup>64</sup>

The analysis of the role of the state in dependent development is significant in that although the particular form which the crisis assumes in the underdeveloped countries is peculiar to dependent production, the general processes at work in this crisis are not.

...in every capitalist country, whether dependent or advanced, capital has sought to increase the rate of exploitation as a part of a renewed attack upon labour which has, of course, met with varied results.<sup>65</sup>

Capital's attack on labour is the inevitable consequence of its need to increase the rate of profit, which can only be achieved by lowering the cost of all elements of production including labour. In meeting this objective the coercive apparatus of the state in dependent social formations has been vigorously employed to weaken the resistance of the working class, often through violent repression. However, even in advanced capitalist social formations, where class contradictions have generally been regulated through a bourgeois democratic institutional framework, the state has, since the mid 1970s, implemented 'austerity measures' which have resulted in a decline in social expenditures and real wages along with a sharp increase in unemployment. The intensification of the current world economic crisis represents a fundamental challenge to the resiliency of bourgeois democratic institutions. Should these institutions fail to meet this challenge, it might be argued<sup>66</sup> that in dependent development, advanced capitalism sees a mirror image of its own future.

## CHAPTER TWO

### STATE INTERVENTION AND "CLASSICAL DEPENDENCE": THE OLD REPUBLIC

The initial phase of dependent development has been referred to as one of classical dependence, a period which coincided with the twilight of the colonial phase of capitalist development. The international division of labour characteristic of classical dependence is described by Peter Evans in terms of the centre/periphery dichotomy.

International trade of unparalleled dimensions was coupled with capitalist accumulation on an equally unparalleled scale in the center countries of the system. Countries at the periphery helped support this accumulation of capital by producing primary products and by consuming goods turned out by the factories of the center.<sup>1</sup>

It was through this system of unequal exchange that peripheral, or dependent social formations such as Brazil were integrated into the world economy. In this process the state, whose primary function was to facilitate capital accumulation, served the interests of the most dynamic sector of the economy, which in Brazil during the Old Republic was the coffee oligarchy. By fostering the expansion of the coffee industry the Brazilian state laid the foundation for the future diversification of the country's industrial base which will be illustrated in this chapter.

#### Economic Development During the Nineteenth Century

Brazil's economy in the early nineteenth century was in the midst of a serious depression owing to the declining value of her major export commodities on the world market. Sugar and cotton which served as the

basis of accumulation during the seventeenth and eighteenth centuries now faced serious competition from new centres of production. The expansion of the sugar industry in the West Indies, particularly Cuba, severely restricted Brazilian access to North America and Britain which were the largest markets for sugar consumption. Cotton production, which had benefited from the effects of the American Civil War on U.S. cotton exports, once again faced U.S. competition at the end of the war. Although it had more success than the sugar industry in maintaining its share of the world market, owing to improved production techniques, the cotton industry remained subject to the fluctuations of the world market.

It was the coffee industry, however, that began to turn the tide for the Brazilian economy. During the 1820s coffee, a crop well-suited to Brazil's climate, was valued at 18 percent of Brazil's exports. By 1850 that figure had climbed to 40 percent.<sup>2</sup> Furtado lists three important reasons for the appeal of coffee: 1) It made use of slave manpower, still available in Brazil. 2) It entailed a lower level of capitalization, depending more on the availability of land. 3) As the coffee plantation was a permanent form of cultivation, capital was fixed--there were few machines to be replaced.<sup>3</sup> As the significance of the coffee industry for Brazil's economy increased so did the influence of the coffee planters on government policy, and Brazilian society in general.

This situation allowed the agrarian-export oligarchy to develop an ideological and political force which made it become a veritable business, intellectual, and political elite, capable of overcoming all opposition to its domination.<sup>4</sup>

Furtado goes further to explain the rise of the coffee planters as the dominant class in Brazil, by comparing the coffee economy to earlier monocultural economies. For example, the sugar economy of the 17th century was characterized by an unequivocal split between productive and commercial, or merchant activities with the latter interests controlling the decision-making process. "Thus isolated, the members of the sugar-producing class could not develop a clear concept of their own interests."<sup>5</sup> The sugar-producing class was therefore not a dominant class and evolved into a class of "idle landlords" whose profits were spent on personal consumption.

It was noted in chapter one how merchant capital came to play a dominant role in dependent social formations such as Brazil. The concentration of wealth through plunder and pillage which laid the basis for capitalist production in Britain and Western Europe, had a drastically different effort for the conquered territories.

In the underdeveloped world, partly because of the manner in which the existing economic structures had been broken down by merchant capital in its era of supremacy before 1800, and partly because of the manner in which industrial capitalism triumphed in the developed countries, and turned the overseas empire of merchant capital to its own advantage, a similar breakthrough proved impossible for almost one hundred and fifty years.<sup>6</sup>

Merchant capital, thus, played a central role in creating the conditions of dependence which delayed industrial development in Brazil. For Furtado the disjuncture between the productive and commercial phases is resolved with the rise of the coffee planters. Unlike the sugar economy, the development of the coffee industry saw a bridging of the gap between production and trade. The production of coffee took place in the south, near the major ports of Sao Paulo and Rio de Janeiro. This had a centralizing effect which

gave the coffee planters an opportunity to become involved in the transportation and marketing of their goods. The coffee industries located near the Brazilian capital, made the new ruling class more conscious of the utility of the central government in serving its interests. The state, as shall be explained later, became an important tool for furthering the interests of the coffee oligarchy in Brazil, and as Furtado claims,

It was this clear concept of their own interests that differentiated them from other dominating groups previously existing or contemporary.<sup>7</sup>

This is not to argue that the coffee planters were any more able to overcome their peripheral status within the world economy. Dos Santos explains that, its powerful influence notwithstanding,

...this oligarchy could not hide its enormous dependence on the British bourgeoisie, which controlled Brazil's coffee commerce as well as provided the modern technology for railroads, ports, communication networks and banks.<sup>8</sup>

Thus, while the coffee oligarchy was increasingly successful in using the state apparatus to serve its own interests, it was no less subject to the imperatives of the dominant capitalist powers, and in particular Britain.

The growth of the coffee industry during the 19th century paved the way for significant social and economic changes which would soon trigger the beginnings of Brazil's industrial development. The major shipping centres of Sao Paulo and Rio de Janeiro expanded rapidly as coffee exports increased. The process of urbanization created an internal market for consumer goods and, therefore, facilitated the limited growth of industry. A key factor which precipitated both the expansion of coffee production and the development of an industrial base in the cities was the abolition of slavery in 1888. As Munck suggests the end of slavery

laid the basis for the capital-wage labour relation in Brazil. However, this development did not have the same effect throughout the country, reinforcing the tendency towards uneven development and the regional disparities associated with such development.

In the Northeast where the stagnant sugar industry predominated, the abolition of slavery tended to reinforce other non-capitalist production relations such as sharecropping and tenant farming. Faced with an economic slump the sugar planters had no incentive to expand, and became increasingly reliant on subsistence farming as a safety valve for former slaves. In fact it was the Northeastern plantation owners who were most opposed to abolishing slavery. On the other hand, coffee planters in the Centre South welcomed the elimination of slavery as a means of freeing up capital which was needed to improve productivity in this dynamic industry. As Teresa Meade explains,

Coffee production relied on a combination of various types of labour organization ranging from sharecropping and tenant farming to wage labor. A combination of pre-capitalist and capitalist modes of production replaced the slave system on the countryside of the coffee producing regions but co-existed with the emergence of capitalist production in urban areas.<sup>9</sup>

Consequently, even before the abolition of slavery, the government of Sao Paulo began subsidizing companies to transport free labour, mainly from Italy during the 1870s, as a less costly alternative to importing slaves from Africa. These developments had a major impact on the class configuration of Brazilian society. As Dos Santos notes, by the beginning of the twentieth century the "national economy achieved a fairly significant degree of specialization which allowed the appearance of a complex class structure..."<sup>10</sup> However, these changes did not by any means result in the complete transformation

of Brazil's precapitalist order. Rather,

The simplicity of the colonial structure had been succeeded by a diversified system that was complex enough to allow the emergence of new social classes, though without abolishing the old ones.<sup>11</sup>

One can say then that the emergence of a new industrial sector in the urban centres of Brazil was a consequence of, and in fact coincided with the strengthening of the old monocultural system based on the export of coffee. The heterogeneous structure of Brazil's economy is characteristic of peripheral, or dependent development.

'Traditional' modes of production are not shortcomings, signs of backwardness in the periphery (as the modernization theorists maintain), they are necessary components of peripheral reproduction.<sup>12</sup>

During the period of the Old Republic it was the dynamic sector of the 'traditional' economy, the coffee oligarchy, which acted as the motor of development in Brazil. As Dos Santos explains, the predominance of the traditional sector is the necessary consequence of the colonial system.

The establishment of a colonial society based on slavery meant that its dependent character constituted the base of internal production, impeding a full development of internal labor and capital markets.<sup>13</sup>

Thus while there were the beginnings of an internal market, as mentioned earlier, its growth was dependent upon the expansion of the agricultural-export economy. Teresa Meade explains the implications of Brazil's colonial background for the development of the ruling classes.

In addition, Brazil's position in the international division of labour generated ruling social classes which were economically, politically, and ideologically tied to the imperialist powers. These ruling classes ... were insured of their continued dominance as long as the country's links to the imperialist powers remained strong.<sup>14</sup>

The dialectic of Brazil's economic development lies in the fact that the monocultural economy, based on coffee in the nineteenth and early twentieth centuries, was necessary to the development of industrial capitalism, yet at the same time served to reinforce a class structure which restricted, or 'blocked' the full development of the productive forces. Bettelheim's conception of the blocked development of the productive forces, referred to in chapter one, has both an internal and external dimension in dependent social formations. As he explains,

It is this specific combination of internal production relations with production relations and political and ideological relations on the world scale that engenders what is meant by the "blocking" of the productive forces in the dominated countries.<sup>15</sup>

It was through this development that the contradictory unity of production was firmly entrenched in Brazil. However this 'unity' came under increasing strain by the end of the nineteenth century as new class formations began to exert pressure on the political institutions which had originally evolved in response to the needs of the coffee planters.

#### Ruling Class Composition During the Old Republic

The military coup which overthrew the monarchy in November 1889 was a political expression of the tensions arising from the transformation taking place in Brazil's class structure. From Sao Paulo state the pressure was particularly intense as coffee exports from the seaport of Santos grew rapidly after 1870, and as the state population grew with the expansion of economic activity associated with the coffee industry. These changes in the regional balance, accentuated by the decline of the Northeast, made

a change in the political structure inevitable in order to accommodate the new power of the Centre-South. Thus, the declaration of the republic, with the support of the armed forces, signaled the rising influence of the industrial bourgeoisie and the middle classes of Sao Paulo, Minas Gerais and Rio Grande do Sul. This influence permeated all aspects of urban life in Brazil as Dos Santos explains.

Growth of the middle classes was based on the expansion of the armed forces, the urban zones that grew with the development of commerce, the administrative apparatus that became more and more necessary for control of the economy, and on the creation of an infrastructure of power and transportation for business expansion.<sup>16</sup>

Industries were growing, enhancing the position of local industrialists vis-a-vis the central government. The institutional changes which took place in government as a result of the republican coup in 1889 facilitated the strengthening of the position of the middle classes in Brazil's political life. And as one author notes,

They took advantage of their new position to encourage the industrialization of the country and to attack the colonial structure inherited from the empire.<sup>17</sup>

This initiative constituted a direct challenge to the hegemony of the rural oligarchy, made up of the powerful coffee planters in the Centre-South region, and the declining sugar planters of the fledgling Northeast. These two groups had a common interest in resisting the political advances of the industrial-urban sector into the state apparatus. Thus,

The rural oligarchy, and the merchants who supported them, obstinately opposed any measures that threatened the export market, such as protective tariffs which might have facilitated industrial expansion and created more jobs for the laboring poor that were flocking to the cities.<sup>18</sup>

Within this class the tension between the Centre-South and the Northeast for government protection was largely resolved in favour of the more profitable coffee planters concentrated in the states of Sao Paulo, Minas Gerais and Rio Grande do Sul. These three states exerted a powerful influence over the policies of the federal government. As Teresa Meade suggests,

The deaf ear of the federal government toward the dilemmas of the Northeast illustrated the growing influence of the coffee planters over other regions and groups, a contradiction between fractions of the landed oligarchy.<sup>19</sup>

This is not to suggest that the concerns of the Northeast were entirely ignored. On the contrary, the Constitution of 1891 guaranteed the sugar plantation owners enough autonomy that the Northeast was virtually self-governing. Non-interference from Rio de Janeiro was an important concession granted to the Northeast region. This reflected an objective on the part of the central government of "winning the sympathies of conflicting interests within the rural oligarchy and forging a path of reconciliation between them."<sup>20</sup> The decentralized nature of the 1891 Constitution has led one author to characterize the Old Republic as the "politics of governors" made up of "alliances of political chiefs ... with state governors and of the governors with officials at the federal level."<sup>21</sup> However, the armed forces, responsible for the 1889 coup, remained an important unifying factor in Brazil. As Dos Santos notes,

The relatively stable agreement among the strong regional interests was based on the army which had established the Republic and continued to be the key to national unity of regional forces such as had wrecked havoc in the rest of Latin America.<sup>22</sup>

This role played by the military was carried over from the days of the empire, and became increasingly significant with the growth of Brazilian

industry and the dependent development of Brazil's productive forces.

The power of the rural oligarchy notwithstanding, the expansion of the new urban middle classes could not be ignored, and concessions were made in their favour. In fact,

Throughout the action of these new social classes, within which the army played a leading role, the first ten years of the life of the Republic were marked by a serious effort to use the machinery of government to encourage industrialization and the economic liberation of the country.<sup>23</sup>

Generally, the measures taken included: easier credit for industry, protective tariffs for industry, an increase in the money supply for expansion and payment of wages and an end to loans off-setting the costs to landowners of the abolition of slavery.<sup>24</sup> These initiatives taken immediately following the coup were important in the transformation of the Brazilian economy to one based on the capital-wage labour relation, at least in the most dynamic sectors. Industrial growth and diversification was only possible on the basis of such a transformation, while at the same time these changes served to diminish further the influence of the less productive plantation owners in the Northeast. However, the constraints of dependent capitalist production precluded any attempt to 'liberate' the productive forces in Brazil from the realities of the world market.

Bettelheim makes this point in reference to the necessarily limited role played by the national bourgeoisie in revolutionizing the means of production in comparison to the bourgeoisie in Western Europe.

The [national bourgeoisie's] role, however, can only be exceptional and limited, owing to the close ties (economic, political, and ideological) that it maintains inside the country with the noncapitalist exploiting classes, and, on the international plane, with imperialism.<sup>25</sup>

An examination of the sources of investment for industrial production illustrates clearly the ties between the urban industrial sector and the 'non-capitalist exploiting classes', specifically the coffee oligarchy.

Warren Dean's analysis of the industrialization of Sao Paulo shows the role of the coffee planters in industry during the Old Republic.<sup>26</sup> In the first instance, some of the more successful coffee planters in Sao Paulo played a limited, but nonetheless important role as brokers and exporters, financing coffee production on neighbouring plantations and forming houses or even banks. Although as Dean explains, foreign brokers and banks were the dominant factor, particularly in the period up to World War I, the planters managed to survive foreign competitors and in some instances eventually surpassed them. Investment from the coffee sector also extended into infrastructural development, especially railroads which were crucial links between the plantations and the port cities. Apart from finance and infrastructure the 1890s witnessed a significant growth in coffee-related manufacturing firms. Coffee planters invested in machinery to aid in the processing of coffee beans, as well as transportation equipment, from the production of rail car parts to the assembly of locomotives although this latter development did not take place until 1911.<sup>27</sup> As Dean notes in 1896 the largest industrial employer in Sao Paulo was the planter-owned Paulista Railroad.

By the eve of World War I, planter investment had diversified considerably. Industries which owed their existence to investment from the coffee oligarchy included: meat-packing plants, cement, sawmills, glassware, beer, drugs and gunpowder. Infrastructural investment expanded

into public utilities including power, water, telephones and tramways.

Dean attributes the entrepreneurial activity of the Paulista planters, which was more extensive than anywhere else, to two major factors. As he explains,

The increase in entrepreneurial activity in Sao Paulo may be better accounted for by the more intense operation of the market economy, that is, by the greater profitability of coffee and by the fuller use of money as a medium of exchange.

It is also probable that the apparently greater entrepreneurial ability of the successful planters conceals pre-existing accumulations of capital.<sup>28</sup>

Industrial growth was, therefore, precipitated by the penetration of capitalist relations of production, resulting from Brazil's integration into the world economy.

The dependence of Brazil's industrial expansion on its links to the world economy was reinforced through the intermediary role of the import merchant. It was through the merchant that international capital exerted its influence on the local economy in Brazil. For example, accumulation with the coffee sector was dependent upon the securing of credit by the planters for the modernization of their plantations, or their newly established factories. This credit, which was only available from European manufacturers, distributors or local branches of European banks, was made available to Brazilian planters through the import merchants who usually represented European important houses. Consequently, merchants could sell technology in Brazil using credit securing abroad, and strengthen the relationship of dependence between the local bourgeoisie and international capital which during the Old Republic was dominated by Britain.

The financial bonds between Brazil and international capital, however, were not restricted to the extension of credits to private interests

within the local bourgeoisie. Brazil's dependence on Britain was reinforced by the accumulation of an enormous foreign debt incurred during the period of the monarchy. At the time of Brazil's independence in 1822 the debt to British banks totalled 1,400,000. By 1889 this figure had reached 30,419,000, "the equivalent of seven times the total annual income of Brazil,"<sup>29</sup> During this period British capital had maintained strict control over banking in Brazil. Miguel Arraes explains the effect of this control over the money supply on Brazilian entrepreneurial efforts.

The British banks established in Brazil under the Empire regarded as their principal function the strict control of credit for production and the management of the rate of exchange. Through credit control throughout the Empire Britain prevented the development of further producing industries. One by one the industrial undertakings which succeeded in establishing themselves passed into the hands of the British banks. Thus began a new form of foreign domination, the domination of direct investment.<sup>30</sup>

These chains of dependence, however, created the necessary conditions for the emergence of an indigenous industrial class which, although "...unable and unwilling to challenge the social arrangements on which their own position depended...",<sup>31</sup> nevertheless achieved some degree of relative independence from the coffee oligarchy. This class was made up of wealthy immigrants who found opportunities for investment which were unavailable in the saturated markets of the old world. In addition, many import merchants found it possible to make the transition from important to manufacturing given their strategic position in the commercial system.

The importer, and no one else, possessed all the requisites of a successful industrialist; access to credit, a knowledge of the market, and channels for the distribution of the final product.<sup>32</sup>

The merchants gained some expertise through their finishing operations which completed the manufacture of goods which could not be shipped fully assembled from the home country. Dean notes that the first steel produced in Sao Paulo came from a Swedish important firm which had previously restricted its activity to the production of spare parts and the installation of machinery.

The increase in large scale industrial production precipitated the growth of the working class in the urban areas, a development which had important consequences for Brazilian politics.

The expanding factory work force, added to railroad and transportation workers, stevedores, construction workers, and miners, created unions that acted aggressively to better their lot directly through strikes and political agitation in the early years of the twentieth century.<sup>33</sup>

Although the fostering of working class consciousness was aided by the influx of European immigrants with some experience in trade union organizations and working class politics, "...the fact remains that the new perceptions and militance were the product of the workers' actual position in the process of production."<sup>34</sup>

Also associated with industrial expansion was the urbanization process which led to the growth of a 'middle class' of teachers, administrators, office and retail employees, journalists, and other salaried public and private employees. The growth of this sector, in addition to that of the working class led, in Sao Paulo for example, to an increase in population from 23,000 in 1872 to 580,000 by 1920. The population of Sao Paulo state grew from 837,000 in 1872 to 4,000,000 by 1914.<sup>35</sup> It was these new class formations, the working and middle classes, which exerted

considerable pressure for change in the political system, rather than the industrialists. Workers, through their newly formed union organizations, pressured the government to legislate improved working conditions in conjunction with their demands on industry for higher wages. In contrast, the various sectors of the middle classes strove to increase their upward mobility potential within industrial society, by lobbying for a more open and democratic political system. This objective was pursued to compensate for the fact that the middle classes in Brazil owned no property and therefore lacked the economic clout of the coffee oligarchy, and even the nascent industrial class. For this class the control of the state was considered the means by which political influence could be translated into policies to promote their interests.<sup>36</sup>

#### State Intervention During the Old Republic

A widely held view of the state in Brazil during the period of the Old Republic suggests that it conformed to the theoretical parameters of 19th century laissez-faire liberalism. Steven Topik points to several authors, including Andre Gunder Frank, who are of this opinion.<sup>37</sup> However there is substantial evidence from Topik and others that the state was far from being non-interventionist despite its financial handicaps. State intrusion into the economy took several forms, benefiting at different times the coffee oligarchy, the ascendent industrial class and, in the long run international capital.

For the coffee planters, state intervention into the market place was not only desirable, it was absolutely necessary to the survival of the coffee industry in Brazil. The growth and expansion of coffee production

during the 19th century created a glut in the market by the 1890s. Coupled with the world economic crises which occurred in 1893 and 1897, the coffee planters began to suffer increasingly from the effects of what Marx termed a crisis of overproduction. Because of the constant drive to increase production, and subsequently the need to expand at an ever-increasing rate the export of capital,

...a rift must continually ensue between the limited dimensions of consumption under capitalism and a production which forever tends to exceed this immanent barrier.<sup>38</sup>

Furtado perceives the coffee crisis in similar terms when he notes that,

Coffee inventories, accumulating from year to year, weighed heavily on prices, causing a permanent loss of income both to producers and to the country as a whole.<sup>39</sup>

Although the falling rate of profit is an inherent contradiction in capitalism as a whole, the consequences of this tendency are particularly intense in a monocultural or single crop economy such as that of Brazil during the Old Republic. The often drastic fluctuations of prices in the agricultural export market are even more devastating for the economy based on the export of a limited number of commodities. For international capital, the falling rate of profit is, at least temporarily, compensated for through its expansion into, and exploitation of, the economically backward countries of the periphery. As this option was not open to Brazil, itself one of those economically backward countries the central government was called upon to intervene on behalf of the coffee oligarchy.

The solution which the planters pressed upon the government was to artificially restrict the supply of coffee available to the world market, thereby raising its price. Under the terms of the Taubaté Agreement of

February, 1906, the federal government agreed to purchase enough of the coffee surplus to drive the price back to a more profitable level. The central government was, in effect, 'valorizing' the profits of the coffee planters through the socialization of losses caused by the crisis of over-production in the coffee industry. In other words, the realization of surplus value was effected by the state when profits could not be realized in the world market. As Miguel Arraes points out, government support of the coffee industry had a major impact on Brazil's already critical balance of payments crisis, as this intervention could only take place with an infusion of foreign capital. Thus the period between 1906 and 1930 saw an additional \$72.7 million tacked on to an already staggering foreign debt.<sup>40</sup> In one year the combined purchase of coffee by the central government and the state of Sac Paulo was equal to the entire budget of 1929, roughly \$269 million.<sup>41</sup>

Another consequence of the 'valorization' of coffee was that because of the high profit margins guaranteed by the government, investment in the industry rose sharply, causing even further expansion of coffee production. This 'multiplier effect' further aggravated the problem of over-production which required even larger purchases of surplus coffee by the state. As Furtado explains,

The defense mechanism of the coffee economy might, in the ultimate analysis, be viewed as a process of postponing the solution to a problem which tended to become more and more serious.<sup>42</sup>

That the central government employed this policy from 1906 to 1929 is evidence of the influence which the coffee regions of the south exerted on the state apparatus at the time. The planters extracted a large

profit from an artificially expanded coffee industry. But they were not the only beneficiaries in this process. International capital had much to gain from this expansion in a number of ways.

Financing of this expansion, combined with direct or indirect control of the trade and export of the product, earned for international capital a very large profit margin; the banks and foreign companies--or even Brazilian companies, to the extent that they were allied with imperialist interests--drained off abroad the capital produced by these financial or trading operations.<sup>43</sup>

The consequences of the process of valorization made clear the class alliance of the coffee oligarchy and international capital.

In addition to valorization there were periodic devaluations of Brazil's currency enacted by the government. This caused discontent among the middle and working classes as it made consumer goods, most of which were imported, much more expensive. It also had the effect of increasing the value of coffee exports on the world market, as well as increasing the purchasing power of international capital in Brazil. "In other words a general reduction in the income of the country was decreed to give advantage to coffee and international capital."<sup>44</sup> These, then, were direct measures taken by the state to bolster the coffee industry. The role of the state, however, was not limited to direct intervention on behalf of the rural oligarchy.

The development of an infrastructure to meet the requirements of local business, foreign capital and the traditional agricultural sector was a primary concern to the federal government, after the enactment of the Constitution of 1891. This objective was greeted with enthusiasm on the part of international capital which was reluctant to invest considerable

amounts of capital into the less profitable areas of infrastructural development. It also stood to gain through the financing of loans to the government necessary for such development.

As Topik points out, transportation and public works were the target of a large amount of government spending, accounting for over one third of the total budget.<sup>45</sup> The railways, for example, were regulated largely by the central government which maintained the right to "set rates, determine routes, and decide the type of equipment to be used"<sup>46</sup> regardless of the protests which arose occasionally from the railway companies. When a railway reached the brink of bankruptcy, the government could usually be counted upon to bail it out through the purchase of company stocks. Laws were passed in the area of shipping which gave Brazilian industry a virtual monopoly in the domestic shipping and fishing industries.

The central government also increased its presence in the banking systems particularly during the latter years of the republic. In addition to the devaluation of currency to bolster the sagging price of coffee exports, the government took steps to regulate interest rates and the supply of money through the federally-owned Banco do Brasil which in 1921 was granted through Congress, the sole right to issue money.

State intervention, although more substantial than some might believe, was nevertheless restricted in its impact on industrial development in Brazil. This is explained by Peter Evans.

But neither in finance nor in transportation did the state give much evidence of trying actively to shape the process of capital accumulation. A more passive kind of support of foreign investors and the export complex in general seemed to be the aim. Concessions and guarantees were services to foreign capital. The provision of railroad transportation was more a service to the general export complex.<sup>47</sup>

Even Topik admits that, "State interventions were largely rescue operations, rather than aggressive attempts at planned development."<sup>48</sup> The role of the state during the Old Republic was one of reinforcing the dominant mode of production at that historical juncture, rather than fostering the development of industrial capitalism in Brazil.

The one interesting exception to this general rule was the issuing of credit to the newly developed industrial establishments which began soon after 1889. It has already been discussed how such measures encouraged the nascent industrial class and contributed to the development of new social formations in the urban centres of Brazil. The reaction of international capital to this development was swift and predictable. Economic sanctions were threatened against Brazil. A Brazilian business magazine carried a message to Brazilian policy-makers from one of the most powerful financial interests within international capital at the time. It stated,

There is reason to believe that Messrs. Rothschild, in a telegram to the Minister of Finance, pointed out that the issue of loans for the development of industry authorized by the government will harm national credit.<sup>49</sup>

Economic pressure was brought to bear on Brazilian currency which caused a decline in the value of her exports. (The price of a sack of coffee dropped by almost two-thirds of its 1893 value by 1899.) In case the point was not made perfectly clear, warships from Britain, France, the United States and Portugal were stationed in the port of Rio de Janeiro to underline international capital's displeasure with the state of affairs in Brazil. With the election of Campos Sales in 1898, international capital proved successful in pressuring the Brazilian state into backing off from its nationalist economic policies, limited though they were.

As Topik points out, financial support from Brazilian industry was marginal compared to the money invested into infrastructural development and that invested to support the coffee oligarchy.<sup>50</sup> Once in power Sales assured foreign investors that the nationalist heresies of the previous administration would not be repeated. Thus,

The most reactionary forces seized power and set up a system of internal government which allowed imperialism, a new-comer on the political scene, to check the industrialization of the country.<sup>51</sup>

The hostility of the government towards the Brazilian industrial class reinforced the dominance of the regional interests of the coffee industry as well as that of foreign capital in the decision-making process of the state.

While the withdrawal of state support was a setback for the emerging industrial class, it by no means halted the expansion of industry in Brazil. The outbreak of the Great War among the major imperialist powers in 1914 proved a major impetus to industrialization as it forced international capital to loosen its ties with the periphery in order to concentrate its resources on the war effort. The gaps left by the curtailment of exports led to the rapid expansion of Brazilian business. Between 1914 and 1919 there were 5,936 industrial establishments initiated. During that same period industrial production increased by 212 percent.<sup>52</sup> Brazil would experience such rapid expansion again between 1930 and 1945 as a result of the world economic crisis and the war which followed it. Industrialization was most pronounced in the areas of textiles, food production and light consumer goods during the last two decades of the Old Republic. These new industries, like the coffee plantations, benefited from the

existence of an abundance of labour power which kept wage levels extremely low. The assurance of a large pool of surplus labour power had been an important part of the government's strategy to meet the needs of the coffee oligarchy since the 1870s. As one government official put it at that time,

We need laborers ... in order to increase competition among them and in that way salaries will be lowered by means of the law of supply and demand.<sup>53</sup>

This position was no less an important factor for the coffee planters than the industrial sector during the Old Republic. Thus between 1889 and 1930 Sao Paulo alone absorbed approximately two million immigrants from Europe to bolster the size of the labour force. As with most initiatives taken by the state during this period, the importation of labour served to encourage the expansion of industry, but at the same time reinforced the old economic system based on the export of coffee. This is another concrete expression of the 'contradictory unity' of dependent development.

#### The Collapse of the Old Republic

During the 1920s the contradictions of the agricultural export economy came to a head in Brazil. The valorization of coffee, it became clear, was a policy doomed to failure even from the perspective of the coffee planters themselves. The preferential treatment given to the coffee industry by the state not only diverted investment capital in Brazil away from industrial expansion and back into coffee, but it also had the effect of increasing the profitability of coffee production in other areas of the world. As a result,

...this artificial and very costly fixing of the coffee prices favored producers in other countries and increased international competition leading to a vicious circle than in turn forced increased state intervention.<sup>54</sup>

While the national debt became increasingly unmanageable for the government, coffee production grew by leaps and bounds as money was being continually pumped into expansion. Furtado explains that between 1925 and 1929 exportable production grew by one hundred percent. The growth in production, however, was not matched by the growth of exports. From an average annual yield of 20.9 million bags of coffee, only 14.1 million bags, approximately two-thirds of the total, were exported.<sup>55</sup> To add to this critical situation coffee consumption in the United States had leveled off by the late 1920s, causing the price to fall to its 1920 level by 1929. The ingredients for a national economic disaster were there by 1929. "Real crisis for the dependent economy required falling prices combined with a stagnant market, which is what was in store for Brazil in the thirties."<sup>56</sup>

The intensifying structural imbalance of the economy frustrated the attempts of each successive regime to shore up its budget deficit and begin to pay off its staggering debts. The only option remaining was to encourage even greater levels of foreign investment to generate the necessary revenue to keep the system afloat.

Thus the whole organization and running of the country, indeed the very stability of the government depended on a regular and increasing flow of foreign capital.<sup>57</sup>

This strategy was successful in masking the ever-intensifying contradictions of Brazil's economy until the collapse of the world economy in 1929, which precipitated the crisis of the oligarchic state and the demise of the Old

Republic.

That the coffee planters were unprepared for the events of 1929 is made evident by the fact that coffee production continued to increase until 1933, a consequence of the overexpansion of the industry during the late 1920s. As the flow of foreign investment into Brazil dried up, government support of the coffee industry was withdrawn, which as Dos Santos points out, was a definitive blow to the power of the planters.<sup>58</sup> Their influence over the central government was curtailed significantly, and they became increasingly reliant on individual state governments for financial aid. The refusal of President Washington Luis to come to the aid of the coffee oligarchy was indicative of "a split between the dominant class and its political representatives."<sup>59</sup> This split marked the beginning of a new phase in Brazil's economic development which favoured industrial expansion over the export of coffee.

After the 1929 depression, exports in ... Brazil ... ceased to constitute the axis of the economic system, and internal investment replaced the external sector as the dynamic growth factor.<sup>60</sup>

This change was a consequence of the loss of Brazil's capacity to import and the opportunity this provided for the emerging domestic industrial class to fill the void. Three factors contributing to Brazil's reduced import capacity included: the drastic decline of Brazilian exports, the cessation of the inflow of foreign capital and the deterioration of Brazil's exchange rate.<sup>61</sup> In effect, what occurred with the collapse of the world market was the loosening of Brazil's ties with the imperialist centre.

The crisis also served to expose the inability of the Old Republic to meet the needs of the dominant class in Brazil. A major reorganization

of the structure of the state appeared inevitable. The 'split' referred to earlier, between the coffee planters and the central government, sealed the fate of the latter.

When it looked as though control over the federal executive was not going to be rotated from Sao Paulo to Minas or Rio Grande do Sul, a takeover seemed legitimate even to members of the oligarchy.<sup>62</sup>

Thus the military coup which brought Getulio Vargas to power in October, 1930, was greeted with enthusiasm by both the urban middle classes and the rural oligarchy. To the extent that there was no significant opposition to the takeover, the demise of the Old Republic was similar to that of the Imperial State. An antiquated federal structure, no longer capable of furthering economic development, was toppled by the military with the support of dominant class interests. The collapse of the agricultural-export economy, in conjunction with the world economic crisis, exposed the inadequacies of a loose federation of powerful regional governments which had characterized the Old Republic. The military recognized the need for a more centralized federal structure which would enable the central government to function effectively without hindrance from regional lobbies. Efforts were made by the armed forces to strengthen the position of the central government even before the coup itself. One can find evidence of this by comparing the relative strength of the armed forces under the control of Rio de Janeiro with that of the regional governments between 1909 and 1937 as illustrated in the table below.

Approximate Numerical Strength of Federal & State Armed Forces<sup>63</sup>

	1909-1937 (1000's of men)					
	<u>1909</u>	<u>1917</u>	<u>1921</u>	<u>1927</u>	<u>1932</u>	<u>1937</u>
<u>Federal</u>	19	22	29	38	58	75
<u>State</u>	18	28	29	28	33	38

The strengthening of the federal armed forces was consistent with the aggressive nationalism promoted by the Brazilian military. Increasingly, the federal state was seen as the key vehicle for economic development and national integration.

The centralization of Brazilian federalism under the aegis of the military gave the emerging industrial class an opportunity to exert a greater influence within the state apparatus. No longer did the state serve solely as a means of promoting the export of coffee. It was also to become an agent of industrialization. This is not to suggest, as some authors do,<sup>64</sup> that Brazil at this time was undergoing a bourgeois revolution in which the industrialists established themselves as the hegemonic fraction of the ruling class. It has already been shown that the growth of industry in Brazil was determined largely by the capital generated by the expansion of coffee production. The middle classes thus developed as an adjunct to the established economic system. As Jose Nun explains,

...the aspirations of these groups found expression within the framework of the hegemony of the oligarchy; the conditions of their development did not result in a fundamental conflict with that system.<sup>65</sup>

While the middle classes wanted control over the state apparatus, they

were unable to assert their independence from an economic system in which the coffee oligarchy remained an important factor. Vargas, a landowner himself, recognized this limitation and initially supported the resumption of the valorization of coffee production. While the role of coffee was diminished by 1930, it was not superceded by industry. As a result the industrial sector was conservative in its political orientation.

Their slogans could never encompass a radical agrarian reform, an anti-imperialist policy, or a defense of bourgeois democracy. On the contrary, the bourgeois industrial program had to find ways to preserve the income derived from the export sector, to control export earnings, to facilitate credit and inflation increases, and to convince the state either to invest or to force international capital to invest in infrastructure ... and in the creation of human resources (a national industrial service for the formation of qualified professionals; labor legislation; and social security to lessen labor costs).<sup>66</sup>

The state had already made considerable progress towards the development of an infrastructure, in cooperation with foreign capital, under the Old Republic, and progress in this direction was to continue under Vargas.

Another major objective for the new regime was the development of a large stable labour market, in other words the regulation of the working class, to meet the needs of Brazil's expanding industrial sector. These important initiatives in support of industry in no way challenged Vargas' fundamental perception of the coffee industry as a major contending factor in Brazil's economy at that time. His support for domestic industry was thus qualified.

Vargas saw the fact that Brazil was "an excellent market for imports" as an advantage, not a disadvantage, since it would, he thought, improve the treatment afforded Brazilian agricultural products in the customs schedules of center countries.<sup>67</sup>

Brazil's links with imperialism continued to act as a 'block', preventing the full development of the productive forces, and reinforcing a heterogeneous economic structure in which precapitalist forms played a dominant role. The contradictory unity of peripheral production was thus reaffirmed.

### Summary and Conclusion

The Old Republic was the state form corresponding to the epoch of classical dependency in Brazilian history. Although there was increasing intervention on the part of the state to encourage industrial development, this intervention was limited, owing to Brazil's dependent position with the world economy. The major imperialist powers reacted with hostility to overt gestures of encouragement to domestic industry which compromised the interests of foreign capital. Consequently, the state during this period directed its attention towards infrastructural development, or the development of the general conditions of production.

Because of the decentralized nature of Brazil's federal system during the Old Republic, individual states, particularly the coffee-producing states, exerted considerable influence over the central government. This influence was used to guarantee the expansion of coffee production through the devaluation of Brazilian currency, the encouragement of immigration to insure a surplus of labour to keep wage rates down, and most importantly the valorization of coffee production to maintain artificially high prices for coffee on the world market. This system functioned successfully until the 1929 depression when foreign investment dried up and market for coffee collapsed. The inability of the institutions of the

Old Republic to meet the needs of the coffee oligarchy was the major factor contributing to the military coup headed by Getulio Vargas.

The expansion of the coffee industry fostered the development of Brazil's major urban centres during the period of the Old Republic. Here the capital generated by coffee production led to the development of an industrial base which allowed for a more diversified social structure made up of industrialists, professions, merchants and the beginnings of an urban proletariat. These new middle classes sought to increase their influence over the state apparatus, but had only limited success owing to the dominant position of the coffee regions in a federation characterized by a weak central government.

Changes taking place in Brazil's class structure were precipitated by the collapse of the world economy which acted as a catalyst for industrial development. The international crisis brought foreign imports to a halt, giving Brazilian industry a chance to fill the gap.

The inefficiency of the Old Republic in meeting the needs of both the urban middle classes and the coffee oligarchy led to the military coup of 1930. The new regime enhanced the power of the central government at the expense of the formerly dominant regional interests. While the government of Getulio Vargas took initiatives which encouraged the development of industry and enhanced the voice of the middle classes in the state apparatus, these initiatives did not obscure the fact that the rural oligarchy remained the dominant force in the Brazilian economy. Thus it can be argued that, "Industrialization, insofar as it did take place occurred in the pores of the old system and subordinate to the agrarian

economy."<sup>68</sup> The state played more than a passive role in this process, although it was not as consciously interventionist as the Vargas regime which followed. As Topik suggests,

The nature of state economic policy during the First Republic and the process of its formation suggest that the Revolution led by Getulio Vargas in 1930 was more like the logical culmination of the First Republic rather than a sharp departure from it.<sup>69</sup>

The limited and inconsistent intervention of the Old Republic was therefore crucial in setting the stage for a more direct and conscious form of intervention into the productive process after 1930.

### CHAPTER THREE

#### BEYOND THE AGRICULTURAL ECONOMY: ESTADO NÔVO AND INDUSTRIALIZATION 1930-1964

The demise of the Old Republic paved the way for the centralization and modernization of the Brazilian state which was the crucial factor in the transformation of Brazil's mode of accumulation from classical dependence to dependent development. During this transformation the state increased its entrepreneurial role in the economic production process, and consequently came to play a more direct role in mediating the capital-wage labour relation through its regulation of the working class and its representative organizations. The Estado Nôvo, established in 1937 under the regime of Getulio Vargas, was the political form which the state assumed, to carry out this more direct mode of intervention. The focus of this chapter will be on the predominant role of the state during the period of industrial expansion from the Vargas era to the end of constitutional rule of 1964.

#### The Transitional Period Between the Old Republic and the Estado Nôvo

This period highlighted the conservative character of the October 'revolution', whose success was dependent on the support of the armed forces. However, as José Murilo do Carvalho argues, military support for Vargas was not unqualified.<sup>1</sup> While the nationalist, reformist-minded junior officers, the 'tenentes', gave active support to Vargas and the Liberal Alliance, which also included the industrialists, the middle class and elements of the working class, his support was not nearly as

strong amongst the conservative senior officers who saw an excess of reformism as a threat to stability. Although they did not actively oppose the coup, their support was more passive than their younger counterparts.

The generals and admirals took no part in the revolution. They remained faithful to the established government. When it became obvious that two thirds of the country was in the hands of the insurgents they merely deposed President Washington Luiz and formed a military junta which transferred the power to Getulio Vargas. The new government thus preserved intact the traditional structure of the armed forces side by side with the revolutionary army to which both professional soldiers and civilians belonged.<sup>2</sup>

As we shall see this juxtaposition of reformist and conservative elements within the armed forces was to have a profound effect on the nature of the Estado Novo.

The new government recognized the continued importance of the coffee industry as the chief source of investment income and as the only means of making even minimal payments on Brazil's foreign debt, although it diminished some of the oligarchy's political influence.

Thus the role of the coffee bourgeoisie as the hegemonic bourgeois class fraction was drawn into question, but it still retained a preponderant economic role. In fact, many of the post-1930 measures which promoted industrialization were designed in the first instance to protect the coffee sector.<sup>3</sup>

Consequently, one of Vargas' first policies was the formation of the National Coffee Council in 1931. The purpose of this council was to regulate the coffee industry and maintain minimum price levels, which necessitated a re-introduction of the valorization programme abandoned by the Luiz regime. This required the purchase of \$11 million worth of coffee by the central government from Sao Paulo alone, which had stockpiled enough coffee to supply almost two years worth of exports.<sup>4</sup> Such measures, it was

hoped, would enhance Brazil's credit rating, as the government was looking for a loan from Britain to help finance the valorization program. In addition, revenue was generated through the trade of coffee for American wheat which could be sold in the local market. This conservative fiscal policy received a sharp rebuke from the tenentes and Sao Paulo coffee planters who advocated "burning the stock and forgetting about the 'London money barons'. Contemplating the disastrous coffee prices, they attributed them to the shipments made in return for wheat."<sup>5</sup> In addition to the coffee industry, sugar, alcohol, cocoa, pine, salt and mate industries were also cartellized under government decree for the purpose of granting credit facilities to producers and guaranteeing minimum prices.<sup>6</sup> This form of state supervised cartellization foreshadowed the more rigorous state regulations which followed the establishment of the Estado Novo in 1937.

Vargas came to power with deep suspicions regarding the industrial sector. This suspicion was evident in the election platform on which he ran and lost only six months prior to the coup.

Vargas' platform favoured the protection only of those industries that used domestic raw materials and repeated the planters' complaint against "artificial industries that manufacture with imported raw materials, increasing the cost of living for the benefit of privileged industries."<sup>7</sup>

In keeping with this view, Vargas decreed on March 19, 1931, that all manufacturers' associations be turned into government sanctioned syndicates. Unlike the case of the cartellization of the primary industries, the manufacturers' syndicates were not intended to guarantee profits, but were, in fact, a punitive measure to discipline industry and restrict its power. The outcome of this policy, however, was to actually strengthen the

position of the industrial class within the state apparatus. As an example,

The C.I.F.T.S.P., restyled the Employers' Syndicate of the Textiles Industries of the State of Sao Paulo, nearly doubled in size and federated under the Center of Industries, which was renamed the Federation of Industries, of Sao Paulo. The syndicates acquired further prestige because they were eligible to participate directly in newly created government commissions like the Tax-payers Council and the Advisory Economic Council of Sao Paulo.<sup>8</sup>

By turning industrial groups into syndicates, duplication was virtually eliminated. Industry was rationalized and its productive capacity enhanced, leading to what Furtado characterizes as the second wave of accumulation, the first having occurred with the state's purchase of the coffee stocks.

Increased output due to more intensive use of the capacity of equipment and the labor force (working two or three shifts) was paralleled by a relative rise in the prices paid by the consumer, whose needs had hitherto been satisfied by imports. In this way, there was a simultaneous increase in production and relative prices, allowing for a greater rate of return. ...This accumulation was reinforced by the spontaneous transfer of resources from the exporting sector, whose rate of profit was on the decline.<sup>9</sup>

The spontaneous transfer of resources was a consequence of the oligarchy's dependence on the industrial sector for consumer goods, and some producer goods, another factor which enhanced the influence of the industrialists over the central government.

Munck justifiably reasons that the most significant aspect of state intervention during the transitional period was that dealing with labour. The intent of Vargas' social legislation was best summed up by a Brazilian politician who warned, "We must make the revolution before the people do."<sup>10</sup> It was through the effective control of the working class that the state was able to create a new social basis on which to legitimate

itself. Labour organizations, like the manufacturers' associations, were forced into government sanctioned syndicates. This policy followed the formation of two new ministries, the Ministry of Labour, and the Ministry of Industry and Commerce, which were for the first time independent of the Ministry of Agriculture. (That industry and labour were lumped together under agriculture is indicative of the pervasiveness of the rural oligarchy until this point.)

In the first three years of the provisional government, several demands of the trade unions were met by Vargas. These demands included: the two-thirds law, which required employers to ensure that two-thirds of their employees were Brazilian born, the official recognition and syndicalization of the trade unions, plus laws dealing with such issues as holidays, woman and child labour, eight hour workdays and guaranteed work contracts. Although these concessions constituted a major breakthrough for the Brazilian working class, they were not without advantage to the regime.

The manner in which the labor ministry dispensed and implemented the new regulations demonstrated to both sides that their purpose was to maintain the existing social order by trading concessions to the workers in return for political quiescence.<sup>11</sup>

The concessions made to labour were necessary to create a stable market for industry, and to legitimate the state as the true representative of the masses. Thus the strengthening of labour's position within the industrial economy was crucial to providing a social basis for capitalist development in Brazil.

Vargas was careful not to disrupt the plantation economy with his labour legislation. Unionization, for example, was restricted to the cities.

"The peasants, lacking their own organization, remained isolated and at the mercy of the local leaders."<sup>12</sup> Some of the new measures were specifically designed to benefit the landowners. Such was the case with the law dealing with the unemployed. Those unable to find work had to register with the Ministry of Labour which would send as many workers as possible back to the plantations.

The policy of the state during the transitional period, between the coup and the proclamation of the Estado Nôvo, served to reinforce the contradictory unity of the production process in Brazil. The plantation economy was protected by efforts of the state to stabilize price levels for agricultural and mineral exports, while the still developing industrial sector became more profitable under government directives which had the effect of rationalizing production. The increasing productivity of the manufacturers, combined with a captive market provided as a result of the international economic crisis, enabled Brazilian industrial production to increase at a rate of 11.2% per annum between 1933 and 1939.<sup>13</sup>

However, the 1930s saw the growth of an increasingly unmanageable balance of payments crisis which threatened the stability of the production process in all sectors of the Brazilian economy. This crisis could only be resolved by lowering tariff barriers on imported manufactures, which had resulted in the levying of duties on Brazil's agricultural exports by her main trading partners. Vargas resorted to this trade-off after 1932, as a means of increasing Brazil's revenues through the growth of export sales. Such a policy was not greeted with enthusiasm from the industrialists. As Dean notes, "This implied not only the sacrifice of certain manufacturing

firms; it also demolished the stability of protection upon which all manufacturers utterly depended."<sup>14</sup> As a result of the tariffs policy, imports began competing with domestic products. The value of imports coming into Sao Paulo alone quadrupled between 1932 and 1936, and increased by \$25 million in 1937.

Such an enormous increase led to Brazil's first negative balance of trade since 1920. Depreciation of Brazil's currency accelerated the deterioration of terms of trade. Table 1 below, using 1929 as the standard, shows the degree to which Brazil's trade balance had declined by 1937. It suggests that while Vargas' attempts to increase the amount of exports might have enjoyed a certain degree of success, their value in relation to imports declined considerably leading to unfavourable terms of trade. The government even repudiated part of Brazil's foreign debt in 1934,<sup>16</sup> hoping the money saved would compensate for the higher cost of imports. In fact the savings only induced Brazilian importers to buy more. Brazilian importers as a whole purchased approximately \$84 million worth of goods over the 1936 level.<sup>17</sup>

Table 1

Year	Export Quantum	Export Prices	Import Prices	Terms of Trade	Importing Capacity	Import Quantum
1929	100	100	100	100	100	100
1937	130.2	101	196	52	67	76.9

Source: Estudio Económico de América Latina (ECLA, 1949).<sup>18</sup>

It was evident by late 1937 that state intervention on an unprecedented scale was the only means of correcting the growing distortions in the Brazilian economy which were reflected in the balance of payments crisis. The old mechanisms of propping up the coffee industry and offering incentives to raise the level of exports proved insufficient to alleviate Brazil's economic problems. In addition, the decentralized character of the Brazilian federal system, which had remained intact after the coup, left the central government without the powers necessary to implement a comprehensive state-led programme of economic development. Consequently, Vargas, with the support of the military, decreed an end to constitutional government, and assumed dictatorial powers on November 10, 1937. As he put it, "Brazil had no alternative but to institute a 'strong government of peace, justice and work... in order to adjust the political organism to the economic necessities of the country'."<sup>19</sup>

#### Estado Nôvo: Blueprint for Dependent Development

The term 'corporatist' has often been used to characterize the Vargas regime during the period of the Estado Nôvo from 1937 to 1945. Such a characterization can be misleading if one accepts the bourgeois interpretation of corporatism as,

...a system of interest group representation in which the state plays a major role in structuring, supporting, and regulating interest groups with the object of controlling their internal affairs and the relations among them.<sup>20</sup>

This interpretation denies the class content of corporatist ideology which is aimed at subduing the disruptive potential of working class organizations within capitalist production. Consequently, it was the unions which were

the primary targets of state regulation under the Estado Nôvo.

In this way the capital-wage labour relation came directly under the aegis of the state, moulded into a class-collaborationist structure and subordinated to nationalist ideology. This has been called a policy of "pre-emptive cooptation."<sup>21</sup>

The labour legislation of 1943 went so far as to define a trade union as a body "which collaborates with the government for the development of social solidarity."<sup>22</sup> This definition served to justify the outlawing of strikes, a measure written into the constitution of 1937.

Strikes were defined as anti-social, as being seen as part of that 'class struggle' which the preamble to the constitution explicitly rejected, and incompatible with the superior interests of national production.<sup>23</sup>

Preemptive cooptation was in fact a combination of cooptation and outright coercion through the exclusion of autonomous working class organizations. The introduction of social welfare legislation, including medical and pension benefits, helped to legitimate the government to the workers. However, manipulation and direct control proved to be the cornerstone of Vargas' labour policy during the Estado Nôvo, particularly after 1941. Skidmore notes the various means by which the state came to dominate the unions. They included: government recognition of each union as the sole basis for its legality, the planting of government agents in union leadership positions, and the collection of compulsory union dues, the distribution of which was at the sole discretion of the Ministry of Labour.<sup>24</sup> Using these methods the government was able to capture key union positions from radical union activists who were dominant in the labour movement prior to 1937.

The Estado Nôvo represented a consolidation of the changes initiated after the coup of 1930. The pursuit of free trade was no longer a high

priority with the government. A conscious policy of 'import substitution' was adopted by the state which eliminated the privileged status which imports enjoyed during the free trade era of the mid 1930s. Vargas sought to replace as many imports as possible with Brazilian manufactures. Thus, "through the manipulation of fiscal measures, exchange controls, import quotas, and credit controls, the state acquired the ability to protect and subsidize private domestic manufacturing."<sup>25</sup> The encouragement of domestic production through government stimulation signaled the end of Vargas' commitment to trade liberalization which he had adopted in the early 1930s. The shrinking market for Brazil's agricultural exports, which was a consequence of the increasing severity of the world economic crisis, undermined Vargas' efforts to resolve the balance of payments crisis through export sales. As a result, he was forced to adopt a nationalist economic strategy favouring domestic production over imported goods. This strategy was encouraged by the decline of production in the advanced capitalist countries, and the inaffordability of what imports were available. These factors combined to give import substitution a momentum of its own, particularly during the second world war. Although originally this process was intended merely to satisfy internal demand, import substitution generated the need for imported intermediary and capital goods as well as some raw materials not available at home. As Furtado suggests, while import substitution tended to expand with production, it was itself the key to the accumulation process during the Estado Novo.<sup>26</sup> We shall see, however, that this key to industrial expansion, itself, created obstacles which eventually impeded capital accumulation and generated its own economic crisis.

The expanded role of the state in the accumulation process was made explicit in the new constitution.

Now the state was to have the right to intervene in the economy "in order to supply the deficiencies of individual initiative and coordinate the factors of production so that conflict may be avoided or resolved and a consideration of the interests of the Nation, represented by the State may be introduced."<sup>27</sup>

Emphasis on the interests of the nation was important in gaining the support of the military which, as Peter Evans suggests, was concerned primarily with national security.<sup>28</sup> The alliance of the military reformers and the conservative senior staff was an important factor in shaping the Estado Novo.

The latter accepted interventionism, provided it was done under the control of the hierarchy; the former accepted hierarchical control, provided the hierarchy agreed to intervention. The hybrid that resulted was certainly hierarchical and interventionist, but hardly reformist.<sup>29</sup>

It was this conservative brand of interventionism, or statism, which lay behind the military's strong support of a domestically-controlled oil and steel industry in the late 1930s, an objective that was felt to be crucial to Brazil's defence capability as well as her industrial development.

Government economic policy under Vargas during the Estado Novo served directly to promote the private accumulation of capital. As Miguel Arraes explains,

This interventionist policy was not aimed at preventing or limiting the activities of the private sector but, in the contrary, at giving it the opportunity of further development. Its principal features can be summarized as follows: on the one hand, to private initiative was reserved investment in those sectors producing consumer goods in which, with a protected market, the success of the undertaking and a high return on the invested capital could be forecast. On the other hand, the State took charge of the investments whose profitability seemed doubtful or difficult to realize and which required a particularly long and sustained effort.<sup>30</sup>

The state then assumed responsibility for industries which required a large scale, long term commitment with regard to investment capital. In the case of Brazil's national bourgeoisie such a commitment would have been beyond its capability. The army, recognizing the weakness of the industrial class, backed Vargas' wide ranging policy of state intervention.

The first industry to feel the effect of this new policy was the oil industry, which was centralized under the auspices of the National Petroleum Council in 1938. This council, which was later changed to Petrobras, was responsible for both oil exploration and production.

A high priority for the government, and the army, was the development of a modern national steel industry. As Dean points out, "A large-scale, integrated mill that would employ coal for the coking process\* was an immense technical and financial problem, and yet it was the key to future industrial development."<sup>31</sup> Vargas initially hoped to attract a foreign steel company to construct the mill at Volta Redonda. However this plan did not succeed, as most steel producers were fearful of competition from Brazil, and in particular the loss of the Brazilian market. Consequently, the government had no alternative but to construct the mill itself, financing the project through a \$20 million loan from the U.S. Export-Import Bank.<sup>32</sup> The steel mill was constructed by 1941, under government supervision, which brought even more support from the army. Brazilian industrialists as well could find comfort with a state-operated steel industry, as its neutrality would pose no threat to any particular

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\*There were already several small steel plants in production in Minas Gerais which relied on an older, less efficient process of using charcoal for coking.

group.<sup>33</sup> In this way state intervention served the interests of the various fractions of the dominant class in Brazil, including foreign capital which increased its influence over the development process indirectly through its financial support.

Although state intervention in the transportation networks had already begun during the Old Republic, the process was accelerated considerably during the 1930s and 1940s. For example, Table II shows the expansion of government control of the railways during this period.

Table II

Administration of the Railroads (%)

	<u>Public</u>	<u>Private</u>
1929	49	51
1932	68	32
1945	72	28
1953	94	6

34

Vargas also nationalized the coastal navigation company and placed the entire road network under the authority of the federal government. Thus, the state fulfilled the vital role of assuming the costs of infrastructural development on an unprecedented scale under the Estado Nôvo.

The production needs created by the war brought increasing pressure to bear upon the working class by the state. Complaints from the industrialists that the labour laws protecting workers' rights were too rigid, gained an increasingly sympathetic ear from the government. The need for increased

production led the government to relax many of the labour laws facilitating an intensification of the accumulation process. The work day increased to ten hours and working conditions deteriorated. Workers employed in areas deemed militarily essential were forbidden to change or quit their jobs. Younger children were permitted to work for lower wages. In addition,

Union meetings, it was decreed, could not be held unless prior-written permission had been obtained from the authorities. Enemy nationals were forbidden to attend union meetings or to vote in union elections. At the time 12 per cent of the work force was foreign-born.<sup>35</sup>

The government did raise minimum wage levels, but wages continued to lag far behind the cost of living. Consequently, the years of the war represented a major setback for the working class as a whole.

At the same time that the war reinforced the authoritarianism of the Estado Nôvo, it also exacerbated the tensions which had existed throughout Vargas' rule.

One of these was between the more nationalist elements of the bourgeoisie, strongly advocating state intervention to accelerate the move towards import substitution, and others more open to the demand for the involvement of foreign finance and technology in that process, a controversy that was linked, in turn, to the argument over the need for strict authoritarian control or for the expediency of a return to some form of liberal democracy reflected in a party system of government through Congress.<sup>36</sup>

Flynn suggests that this tension called into question the role of the growing urban proletariat in the political system. With Brazil engaged in war on the side of the allies in the name of 'democracy', it became clear that the authoritarian form of the Brazilian state would no longer be consistent with the international ideological framework of postwar

bourgeois society. In addition, the enlarged role played by the United States in Brazilian industrialization, illustrated by the \$20 million loan for the National Steel Company, resulted in American pressure on Vargas to adopt a constitutional form which was more consistent with that of Brazil's allies, than her foes. A refined version of the Estado Nôvo, then, had to take into account: the need for increased participation of the working class in politics, the need to develop a political form more closely identified with bourgeois democracy, and the recognition of the interests of foreign, particularly American capital in Brazilian industrial development.

The period of the Estado Nôvo can be described as one of 'conservative modernization'. It represents the internationalization by the state of the relations of dependence, a process under which the state takes the lead in fostering industrialization, and literally assumes the cost of dependent development. This leadership role assumed by the state coincides with the inability of the progressive class to advance openly.

...resulting in a simultaneous revolution/restoration.  
 In Brazil this resulted in the failure of the industrial bourgeoisie to seize political power and led to the 1937 "compromise" between itself and the old dominant agrarian sectors.

The state's role in this compromise was to lead the industrial class in the process of economic development, as the industrialists themselves were incapable of leading it. This role is illustrated by analogy through Trotsky's assessment of 'late' development in Czarist Russia. He explains,

The state in its turn strove to force the development of social differentiation of a primitive economic foundation. Furthermore the very need for forcing, caused by the weakness of the social-economic formations, made it natural that the state in its efforts as guardian, should have tried to use its preponderant power to direct the very development of the upper classes according to its own discretion ... the state strove with all its power to accelerate the country's natural economic development.<sup>38</sup>

Such a role requires a specific form of political domination of the subordinate classes. Until 1942 that form was corporatist, but after that point changes were evident that suggested a modification of the Estado Nôvo was taking place.

The new political form which began to take shape during the war was that of the 'populist' state. This form consisted of three main elements. First, it promoted social conciliation based on the paramount interests of the nation state. Second, it fostered the idea of a "'drive for development', ambiguously posed between 'autonomous' and 'dependent', but always capitalist."<sup>39</sup> Finally, it used as its focal point the charismatic leader who acted as the personalization of power. As Munck suggests, the populist state is,

...a form of political organization of the relations of production during a period in which the productive forces and the internal market were expanding. Its main function as a state form was to effectively, in one and the same movement, depoliticise social classes in politicising the alliance and harmony amongst social classes.<sup>40</sup>

In conforming to the new political environment, Vargas' political strategy from 1942 until his fall from power in 1945, "gave a more positive, but still controlled, role to the working class", giving it more a change in style than in substance with respect to class relations.<sup>41</sup> He stressed the need for the worker "to integrate himself more closely in the organization of

the State."<sup>42</sup> Integration was posed as the alternative to class struggle, which Vargas claimed was an idea promoted by 'agitators' and 'demagogues'. In November 1943, he announced wage and salary increases to state employees and expressed hope that such a move would set an example for private industry. This measure served to regain for Vargas, much of the support from labour which he had sacrificed at the beginning of the war. Consequently, Vargas was widely supported as the presidential candidate of the officially sanctioned Brazilian Labour Party (PTB)\* in the elections which were finally announced on May 28, 1945, and scheduled for December 2 of that year.

However, Vargas' popularity with labour, combined with his endorsement of economic nationalism, served to fuel the suspicions of his opponents, at home and abroad, particularly in the United States where Adolph Berle, American ambassador to Brazil, spoke out in favour of the opposition. Within Brazil the opposition tended to coalesce around an uneasy alliance of army officers and representatives of the middle class under the banner of the National Democratic Union Party (UDN). Both groups feared the perceived increase in the power of labour under Vargas, and the middle classes in particular pushed for a return to a liberal democratic political framework. Convinced that Vargas intended to retain the presidency through a direct appeal to the urban masses, his opponents, with the backing of the armed forces, forced Vargas to resign on October 30, 1945, and managed to keep him out of the political arena until his comeback in 1950. Nevertheless, the institutional changes which took place after 1945 did not seriously compromise the basic tenets of the Estado Nôvo, particularly with regard to the authoritarian control of the working class, a system referred to as

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\* Even though Vargas never officially accepted the candidacy.

'trabalhismo'. Even without Vargas in power, the corporatist ideological basis of Getulism remained a potent force behind Brazil's political and economic development.

#### The New Compromise and Economic Growth in the Early Postwar Period

The weakness of the liberal forces became evident with the defeat of the UDN in the elections of December 2, 1945. A coalition of the Social Democratic Party (PSD) and the PTB scored a decisive victory under the leadership of General Enrico Gaspar Dutra. This alliance was the embodiment of the contradictory unity of Brazilian dependent capitalism, and represented what João Quartim refers to as the 'twin pillars of Getulism'. On the one hand, the PTB was the official party of labour based in Sao Paulo and Rio de Janeiro. On the other,

The PSD was the party of Vargas' provincial bosses, rallying the greater part of the rural oligarchy. It stood for the continuation of Vargas' strategy: maintenance of the status quo in the countryside, government control of the working class through state-sponsored economic development and the official trade unions.<sup>44</sup>

Thus the class forces which formed the basis of the Estado Nôvo were also dominant in the constitutional political framework of the postwar era.

State intervention after the war was not always intended as a direct stimulus to industrial development. In fact, the state controls introduced in 1947 were a response to the increasing balance of payments crisis which was taking its toll on Brazil's foreign exchange reserves.

In 1947 exchange controls were set up, together with an elaborate import licensing system that discriminated against consumer goods in favor of raw materials and machinery. These measures obviously created a powerful incentive for Brazilian industry to expand. Furthermore, given a high official exchange rate there was no incentive to export, and investment was channelled into production for the home market.<sup>45</sup>

The licensing system was supervised by the Export-Import Department of the Bank of Brazil (CEXIM) which by 1950 had virtually equilibrated the balance of payments. Such intervention also served to reinforce the import substitution process, encouraging the expansion of domestic industry and increasing the need for the import of capital goods.

The labour policy of the Dutra regime was guided by a strict adherence to the most repressive aspects of Vargas' consolidated labour laws, which increasingly alienated the working class. This alienation was intensified by the suppression of the Brazilian Communist Party (PCB) which had gained considerable support from labour in the 1945 election. The crackdown came in 1947 after the PCB had established an independent union structure, the Brazilian Workers' Federation, which threatened the state's ability to control the labour movement. Taking advantage of Dutra's growing unpopularity, Vargas was able to secure for himself the support of the PTB in the next election. Already assured of the support of the latifundists within the PDS, Vargas aimed for the backing of the army through a political platform of economic nationalism. As a result Vargas was elected president with an overwhelming majority in October 1950. Although the mechanism of popular elections was new, Vargas' return to power, as in 1930, was based on securing the support of the army and the rural oligarchy. The support of the masses only became a factor after he had been accepted by the former groups, and such support was largely the consequence of the unpopularity of the incumbent regime.

During the 1950s state intervention became a more conscious attempt to promote industrialization in Brazil. This intervention came about largely as a consequence of the recommendations of the Joint Brazil-United

States Economic Commission (1951-1953) whose "large Brazilian and American technical staff made one of the most complete surveys of the Brazilian economy and formulated a series of infrastructure projects, with programs for their executions."<sup>46</sup> To implement these and other programmes the commission established the 'Banco Nacional Desenvolvimento Economico' (BNDE) in 1952. However by the early 1960s the role of the BNDE had expanded as the emphasis changed from the development of infrastructure to that of heavy industry, particularly steel, and later to financing the sale of capital goods and the expansion of small and medium-sized firms.<sup>47</sup>

Vargas' economic nationalism manifested itself in the creation of Petrobras in 1953. Petrobras was given a monopoly on all future oil exploration and refining. As Quartim notes,

The Petrobrás project led to fierce debate over details, but some form of oil nationalization was supported by almost every section of the properties classes themselves, and even by the UDN.<sup>48</sup>

State ownership of the oil industry was also backed by the military which, as mentioned earlier, was considered crucial to national security. Furthermore, "Petrobras gave the state a powerful lever with which to shape and direct the process of accumulation."<sup>49</sup>

Electricity, the development of which was equally as important as oil, was promoted initially on a regional basis with each of the industrially advanced states establishing its own company. However, after the nationalization of the American and Foreign Power Co. in the early sixties, these companies became subsidiaries of the state-controlled holding company, Electrobrás. State ownership gave the government the power to impose price controls, throughout the public utilities industries, which limited the cost of production

for private industry, thus encouraging industrial expansion.

While the state concentrated its efforts on infrastructure and basic industries such as iron and steel, private capital continued to expand in the newest and most profitable fields of industry. This expansion over the course of the 1950s brought to light the fact that foreign, not national, capital would be the motor of Brazilian industrial production. The most profitable fields of investment, such as the automobile industry, chemical industry, mechanical industry and heavy and light metallurgy were all developed under the aegis of foreign capital. As Dos Santos explains,

The new industrial sector that developed became the most dynamic area of the national economy. The entire economy had to be reoriented in terms of its technological, organizing and economic leadership. National capital and the technocrats had made an enormous effort through extensive exploitation of the working classes, to establish a base for Brazilian industrialization, with elaborate measures to protect the national market. However international monopoly capital received most of the benefits from this effort, and the national bourgeoisie had to content itself with becoming junior partners.<sup>50</sup>

The state strongly encouraged this imbalance by offering preferential exchange rates and eliminating tariffs to foreign firms on imported equipment, while at the same time offering no financial assistance to domestic equipment industries.<sup>51</sup> Such a policy provided the cheapest and most expedient means of developing the economy as a whole. Vargas, and later Kubitschek, could ill-afford to take the more costly route of financing Brazil's less developed capital goods industries. In pursuing the primary objective of expanding Brazil's industrial capacity, the state was forced to accept the predominance of foreign capital in the most advanced sectors of the economy. Thus, the economic nationalism espoused by Vargas and many of his successors was bound by the parameters of dependent development which is illustrated by

the dramatic increase in foreign investment as Table III below shows.

Table III

Direct Foreign Investment in Brazil  
(in millions of U.S. dollars)

Year	1950	1951	1952	1953	1954	1955	1956	1957
Direct Investment	39	67	94	61	52	79	139	179
Year	1958	1959	1960	1961	1962	1963	1964	
Direct Investment	128	158	138	147	132	87	86	

52

Despite the nationalist rhetoric of government economic policy, Brazilian private and public capital investment was restricted to a few key support industries. The role of public capital investment during this period was crucial in facilitating the rapid growth which occurred under Kubitschek. As Munck explains,

It is this important state sector which lays the infrastructure for the boom of the Kubitschek period (1956-1960). The state was to become a fundamental element in the "great leap forward" promoted by Kubitschek's Plano de Metas (Target Plan) whose avowed aim was to advance Brazil "fifty years in five".<sup>53</sup>

In this way the state and foreign capital made up the driving force behind industrialization, with national capital as an active but subordinate element.

The Kubitschek regime which lasted from 1955 to 1960 represents the most dynamic period of industrial expansion in the post-war period, prior to the military coup. Production in the most advanced sectors, including chemical, metal fabrication, transportation equipment, etc., grew from 42.9% to 52.4%, as a proportion of the total industrial output. The

'restricted industrialization'\*, which characterized the period from 1933 to 1955 gave way to,

...a new model based on a block of highly complementary investments carried out between 1956 and 1961 which completely transformed the structure of the productive system. This has been referred to as a process of "heavy industrialization" because it resulted in the accelerated growth of the production goods sector.<sup>54</sup>

This process of heavy industrialization resulted in a real economic growth rate of 8% per year between 1956 and 1961 which was approximately three times the Latin American average.<sup>55</sup> As Munck notes, the state played a major role in this growth.

Government participation in fixed capital formation more than doubled between 1947 and 1960 (with a steep rise after 1965) and if we include fixed government enterprises we find that its share approaches 50% in 1960.<sup>56</sup>

In short the role of the state during the boom period of the 1950s can be summarized as follows. It assumed financial and administrative responsibility for infrastructural development including transportation networks, energy and petroleum. It used state financial institutions such as BNDE, SUMOC (Superintendency of Money and Credit) and SUNDENE (Superintendency for the Development of the Northeast) to attract foreign investment to Brazil. Basic industries such as steel were developed through state initiatives with help from foreign creditors. These forms of state intervention were critical to Brazil's tremendous economic expansion during the late 1950s. At the same time state intervention was made possible by the expansion of international capital into Brazil, and the "Third World" in

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\* 'Restricted' because it lacked the technical/financial base necessary to create a production goods industry necessary to independent development. Lacking such a base, industrial growth was restricted by the state's ability to purchase production goods from the advanced capitalist countries.

general, after the recovery of Europe under the Marshall Plan.

Contradiction and Crisis in Dependent Development

The transition from 'restricted' to 'heavy industrialization' in the late 1950s represented a shift from the traditional, labour intensive industries such as foodstuffs and textiles to capital intensive industries such as machinery, chemicals and basic metals. This shift reflected an industrial growth based on a rising organic composition of capital which Table IV below shows.

Table IV

Organic Composition of Capital - 1940, 1950, 1960

	<u>1940</u>	<u>1950</u>	<u>1960</u>
<u>Production Goods</u>			
Value of Production	100	228	508
Employees	100	176	284
<u>Consumer Goods</u>			
Value of Production	100	176	249
Employees	100	154	175

The disjuncture between production and employment became even more acute between 1959 and 1964 when industrial value added increased 30% while industrial employment declined by 2%.<sup>58</sup> In addition to lower employment levels, the 1950s witnessed a decline in real wages in the industrial areas as shown in Table V. That the wage levels in these areas did not decline further was due to the increasing militancy of labour during Vargas' second term.

Table VIndex of Real Wages of Industrial  
Workers

<u>Year</u>	<u>Guanabara (Rio)</u>	<u>Sao Paulo</u>
1940	100	100
1949	87	100
1959	76	95

59

Vargas had made concessions to the unions in exchange for their support in the elections of 1950, which resulted in a more powerful voice for the workers. In less advanced states the deterioration of wages was even greater.

While employment and real wage levels continued to decline, prices tended to escalate at an ever-increasing rate, as indicated in Table VI.

Table VIPrice Index

1945	100	1960	1014
1950	165	1961	1530
1955	368		

60

The decline of real wages along with the rise in prices contributed initially to a concentration of wealth in the hands of the dominant classes, particularly those linked to the dynamic sector of the economy. This was a major factor in the extraordinary growth of capital during the Kubitschek regime.

Increasingly during the late 1950s the state came under pressure from divergent class interests, producing social tensions which led to political and economic instability in the early 1960s. Flynn notes that,

Wage- and salary-earners grew louder in their claim for more money to keep up with inflation, industrialists demanded continued, even wider credits to finance their growth, foreign bankers grew steadily more alarmed at the rising inflation and at a swelling chorus of nationalist criticism which accused interests outside Brazil of being more anxious over their investment and rate of profit than the needs of Brazilian development and national development generally.<sup>61</sup>

This swelling chorus of nationalist sentiment was harnessed by Kubitschek within the framework of what became known as 'developmental nationalism'. The strategy put forward under this rubric represented,

...the reinforcement of corporatism as the most dominant theme in the ideological state apparatus by an aggressive nationalism through which the government associated with its economic policies social groups whose real interests by no means had been shown to be identified with those policies.<sup>62</sup>

What this entailed for the working class was an attempt by the Ministry of Labour to tighten its grip on union organizations through a system referred to as 'peleguismo'. This system was based on the authority of a group of union leaders, 'pelegos', who were, in fact, clients of the Ministry of Labour. The pelego's perspective was "'characteristically anti-worker', being at best paternalistic in his attitude, regularly preaching conformity, restraining attempts at revolt, and containing the class struggle."<sup>63</sup>

The tightening of state control over the unions was complemented with Kubitschek's encouragement of working class participation within the institutional framework, under the leadership of João Goulart, Vice President since 1955 and head of the PTB. Goulart was able to mobilize

union support for Kubitschek under the populist rhetoric of developmental nationalism. However, of more immediate concern to labour was the fact that Kubitschek was seen as the only effective barrier to the incursion of the armed forces into the political arena. That threat loomed large in the minds of Brazilian workers after military opposition within Vargas' cabinet during his second elected term, had resulted in his suicide in 1954. Fearing the repercussions which a military government would have for workers' rights, labour remained a supporter of the PSD-PTB alliance headed by Kubitschek, until the end of his term. However as Flynn points out, the populist system central to powerwar development, contained fundamental contradictions which ultimately could not be resolved without a change in the institutional configuration of Brazilian politics.

That system had always contained severe tensions, seeking both to hold together a multi-class coalition, yet also to offer a measure of redistribution and a greater degree of political participation to previously excluded social groups, who inevitably would tend to challenge the very system through which their opportunities had been provided.<sup>64</sup>

It was the mobilization, and challenge, of the working class which would by 1964 draw together the competing bourgeois fractions with military to reaffirm their hegemony through a military dictatorship.

The growing challenge of labour was a consequence of the extension of PCB influence in the union movement throughout the 1950s. Parallel trade union organizations were formed in Sao Paulo and Guanabara under communist leadership, and by 1962 the majority of these organizations were linked through the Comando Geral dos Trabalhadores (the General Workers' 'Commando'). Those parallel organizations were successful in extracting wage concessions from the government for public servants and the military,

but as mentioned earlier, wage increases tended to be offset by the rise in the cost of living. The wage concessions did, however, serve to further strain the federal budget fuelling the fiscal crisis with which neither Kubitschek nor his successors could cope. An anti-inflation program worked out by Kubitschek in close cooperation with the International Monetary Fund (IMF) was abandoned in June 1959, when it became clear that spending cuts required in public spending would compromise the Target Plan, initiated under Vargas' second term, which set production quotas in Brazil's basic industries. The program would also have led to further conflicts with organized labour, particularly in the public sector, which Kubitschek was unwilling to risk.

Public employees were growing rapidly in numbers as a distinctive branch of the state apparatus, and their claims for resources, and mounting anxiety over their relative placing in an inflationary economy, now became one of the major factors of national politics.<sup>65</sup>

Thus Kubitschek's commitment to development, and his desire to maintain social peace, precipitated the inflationary spiral which undermined the governments of Jânio Quadros and João Goulart.

Import substitution was another major factor contributing to inflation in the 1950s and 1960s. Industries producing goods formerly supplied through imports were protected by high tariffs imposed by the government on any foreign competitors.

Industrial growth based on the substitution of home-produced goods for imports, and indiscriminate protection measures and the monopolistic conditions of operation of the industrial sector ensured it an excess profit margin. The guarantee of high profits made it unnecessary to pursue greater technical, economic and administrative efficiency: the under-utilization of production capacity together with the restriction of supplies, which was its consequence, were amply compensated for by the increase in prices...<sup>66</sup>

Inflation was therefore a part of the internal dynamic of dependent development which served as a redistribution of income in favour of the industrial class. The investment potential of this inflationary process would only last as long as Brazil enjoyed a favourable balance of trade, and as long as import substitution had room to expand.<sup>67</sup>

As Brazil entered the 1960s the limitations of import substitution became evident. The process had not reduced Brazil's dependence on imports, but merely changed the pattern of dependence.

In the initial years all intermediate as well as capital goods have to be imported; and even if a country succeeds in achieving some vertical integration, there will always remain a hard core of basic products that resist substitution. In addition ... one must remember that few nations are self-sufficient in such industrial raw materials as ferrous metals or energy resources; and these physical constraints are likely to ensure a permanent reliance on imported industrial inputs.<sup>68</sup>

It is at this stage that import substitution reaches what Furtado refers to as its point of relative saturation.<sup>69</sup> When the process of development reaches this level any constraints on import capacity can have serious economic consequences. Such constraints no longer translate into a mere decrease in the import of consumer goods.

A decline in a country's capacity to import intermediate and basic industrial goods effects the health of domestic industry, slows down production and reduces employment levels; in short, such a constraint is capable of a huge multiplier effect within the national economy.<sup>70</sup>

Import capacity became increasingly restricted in Brazil during the late 1950s and early 1960s. One reason for this constraint was the fact that industrial production was geared mainly to domestic consumption rather than export, which limited the amount of foreign exchange it could generate. As a result, Brazil remained dependent of the export earnings of the primary

sector to cover the cost of importing intermediate and producer goods. However as Table VII below shows, export earnings from traditional commodity exports declined steadily under the Kubitschek, Quadros and Goulart regimes. The decline in the value of Brazil's exports made imported producer goods all the more expensive, and it became necessary to rely on financial assistance from the developed countries, particularly the United States, to maintain the pace of economic development. Such assistance, in the form of aid and loans, exacerbated further the balance of payments deficit and created a huge foreign debt. Dos Santos notes that during the early 1960s, the interest payment on Brazil's foreign debt reached 40 percent of her total export income.<sup>71</sup>

Table VII

Prices of Selected Exports  
(Index of Dollar Prices, 1953 = 100)

<u>Year</u>	<u>Coffee</u>	<u>Cocoa</u>	<u>Sugar</u>	<u>Iron Ore</u>	<u>Cotton</u>	<u>Total Exports</u>
1953	100	100	100	100	100	100
1954	124	162	88	87	99	117
1955	88	108	93	80	103	93
1956	88	77	98	87	82	89
1957	84	92	123	93	92	91
1958	76	125	86	93	85	84
1959	60	108	78	73	63	71
1960	61	80	85	67	66	70
1961	60	64	96	67	73	71
1962	56	63	101	60	71	67
1963	54*	74*	141*	59*	72*	66*

\*Preliminary based on average of first eight months.

When Goulart came to power in September, 1961, he was faced with a no win situation. If he attempted to reduce spending to curb inflation, the result would be a massive increase in unemployment and inability of the government to meet its production targets essential to industrial growth. On the other hand a commitment to economic expansion would fuel even greater inflation and an even larger balance of payments deficit. The choice facing Goulart reflected a growing polarization in Brazilian society. The populist multi-class alliance characteristic of the Kubitschek period was no longer feasible. The dominant class, including the rural oligarchy, the industrialists and the representatives of foreign capital, pressed for the curbing of Brazil's inflation rate, which by 1961 had reached 37 percent.<sup>73</sup> Urban workers continued to organize outside the government-led labour organizations under the leadership of the PCB. There was also an increase in political activity among the peasants in the north-east where the Peasant Leagues, led by Francisco Julião since 1956, became more aggressive in their demand for land reform. Inspired by the Cuban Revolution the peasant organizations were drawn into,

...an unprecedented mass movement for agrarian reform, strengthened the radical forces within the working class, and inspired a new wave of nationalism among the intelligentsia and in sections of the army - junior officers, NCO's and lower ranks.<sup>74</sup>

The increasing militancy of the working class fractured the alliance of the PSD and PTB which had supported Goulart. Because of Goulart's historical links with the PTB there was chance of his gaining the confidence of the rural oligarchy which formed the base of support for the PSD. He was therefore left with no alternative but to shift to the left as

labour became more militant.

This shift in policy orientation of the Brazilian state came increasingly into conflict with the dynamic of dependent capitalist development in Brazil which was centred on the foreign-dominated sector, supported by latifundists.

The strengthening of international monopoly capital had provoked a vigorous economic concentration - a monopolization of the principal sectors which led to an extensive income redistribution favoring the monopoly capital interests to the detriment of the interests of small and medium landowners and above all the labor and lower-income groups.<sup>75</sup>

Such a redistribution of income effectively restricted investment in the internal market leading to a higher outflow of capital income from Brazil. As Dos Santos notes, this outflow contributed to a capital funds deficit made worse by the increasing foreign debt.

Labour's response to the growing disequilibrium in income and the growing disjuncture between industrial expansion and employment outlined earlier, was to use its growing influence to support leftist candidates for government positions. Thus when Goulart's nominee for Prime Minister, San Tiago Dantas, was rejected by Congress, the trade unions called a general strike which eventually forced Congress to accept another 'leftist' candidate nominated by Goulart. The most significant victory for the working class came in 1962 when Goulart in a conciliatory move, granted the formation of the CGT (General Workers' Executive) which gave labour an independent political leadership for the first time in Brazilian history.

The CGT for the first time bypassed the whole system of compartmentalized trade unions subordinated to the Ministry of Labour through the CNTI [National Confederation of Industrial Workers], and from then on the unions were politically led by an executive controlled jointly by the PTB and the PCB (which had in practice been legalized).<sup>76</sup>

Freed of its corporatist shackles, the CGT began organizing mass rallies and pressed Goulart for even more political and economic concessions.

By 1963 pressure on the Goulart regime intensified on several other fronts. The Peasant Leagues adopted aggressive tactics, including the occupation of latifundist property, to meet their objectives of agrarian land reform. The peasants gained a voice in government through the election of a reformist, Miguel Arraes, as governor of Pernambuco. Arraes encouraged the peasants' initiatives, stirring opposition movements organized by the rural oligarchy and elements of the army. Also during this period the student movement became more vocal, and received government support in its efforts to direct a literacy campaign.

A Movement for Basic Education was sponsored by the Ministry of Education and had a very definite political dimension, officially intended to build a broad political base for Goulart among those sections of the masses newly awakening to political life, but also providing the UNE (National Union of Students) and the radical student groups with the opportunity for their own propaganda.<sup>77</sup>

In face of growing instability fuelled by an inflation rate which by 1962 had reached 52 percent, Goulart made a final attempt to forge a populist alliance under the banner of economic stabilization.

The Three Year Plan (Plano Trienal), largely conceived by Celso Furtado, one of Goulart's cabinet ministers, was drawn up in the early months of 1963. It focussed on the foreign-led sector as the chief cause of Brazil's inflation and debt crisis. In response, the program

called for a reduction of the inflation rate to approximately 10 percent without sacrificing industrial growth. At the same time Furtado proposed a strategy of income distribution and social reform which would stem the rising tide of labour militancy.

And all this had to be done, in effect, without alienating still further groups within the armed forces and among more conservative politicians, who were already hostile to, or suspicious of, Goulart, and without producing a serious loss of confidence on the part of foreign bankers and investors, who had already been made anxious over the rise of inflation since the Kubitschek administration and over the increasing signs of political and social 'instability'.<sup>78</sup>

To succeed the government had to secure an agreement with the U.S. government on refinancing Brazil's crippling foreign debt. When the Americans tied further loan guarantees to a rigidly enforced austerity program, Goulart gave up on inflation and the plan, shifting his policy orientation increasingly in favour of his only remaining base of support; labour. From November 1963 to March 1964, the Brazilian state adopted increasingly radical measures which effectively united opposition elements and paved the way for a military coup.

Goulart called for a united Latin American trade policy in face of the economic pressures of the developed countries at the Inter-American Economic and Social Council meeting in November, 1963. Early in 1964 he introduced several provocative economic measures including: increased government regulation of foreign capital, agrarian reform policies, profit ceilings for all companies and price controls on consumer goods. However, the full extent of Goulart's commitment to the popular forces was not realized until he embarked on a program of structural reform along with the CGT and Brazil's leading leftist nationalist Leonel Brizola. These structural reforms were announced at mass rallies the first of which was

held in Rio de Janeiro on March 13, 1964, with over 150,000 attending.

Two important decrees were signed publicly at this rally,

...one nationalizing those oil refineries still in private hands, the other authorizing the expropriation of certain categories of under-utilized latifundist land. He also announced plans for rent control, tax reform, and the extension of suffrage to illiterates and soldiers, which were presented to Congress in the president's annual message two days later.<sup>79</sup>

Goulart threatened to bypass Congress through a plebiscite if necessary to ensure the carrying out of his structural reforms.

The growing dependence of the state on working class support served to precipitate an alliance of the dominant class fractions with the support of the middle classes who were now threatened by Goulart's circumvention of Congress and his direct appeal to the workers. In Sao Paulo, right wing politicians with the approval of the military organized a rally, the 'March of the Family with God for Liberty' which attracted 250,000 people, chiefly of middle class background. The national bourgeoisie, threatened with controls on its profits, and an increasingly hostile labour force, was left with no choice but to support the military coup which took place on April 1, 1964.

### Summary and Conclusion

The state during the period from 1930 to 1964 took the leading role in the development of industrial capitalism in Brazil. Such a role is consistent with the general analysis of the dependent state outlined in Chapter One. Under Vargas, the state played an increasingly interventionist role, maintaining and developing the productive forces within the limitations of dependent capitalism. To this end state intervention went

beyond the traditional role of reproducing the general conditions of production. In addition to the development of transportation and communications networks, the state played a leading role in the construction industry, oil production and most importantly in the production of basic metals such as iron and steel.

Foreign capital played an increasingly central role in financing the development of the productive forces in Brazil. Consequently the development process itself precipitated the accumulation of a burdensome foreign debt which was exacerbated by the deterioration of Brazil's export earnings from primary commodities such as coffee and cotton. The increasing balance of payments deficit led to the economic crisis and political instability of the early 1960s. Thus, Brazil's link to the world market continued to act as a fetter on industrial development. In addition, the state's dependence upon the profits of the agricultural sector illustrated that Brazil's productive forces continued to be constrained by the persistence of precapitalist relations of production. The contradictory unity of dependent production remained intact.

The attempt by the Estado Novo to coopt and regulate the working class through state-controlled labour organizations facilitated the development of working class consciousness in Brazil. This became clear by the end of the Kubitschek administration when the limits of populist ideology had been realized and labour organizations, increasingly influenced by the PCB, became more militant in their demands for wage increases and political power. At the same time that the working class was demanding social and economic reform, international capital, through the IMF and the U.S. government, was setting conditions for further credit to the Brazilian

state which included a deflationary program designed to create a more favourable climate for investment. However, union militancy, with additional pressure from the peasantry, students and progressive elements in the army, made the adoption of such a program impossible within a liberal constitutional framework. As Munck notes, "It was these struggles that transformed an 'economic' crisis into an organic crisis for capitalism which bordered on being a pre-revolutionary situation."<sup>80</sup> The organic crisis of capitalism during this period is clearly illustrated by the decline in the rate of profit as shown in Table VIII. The falling rate of profit is particularly acute in relation to the rising inflation rate.

Table VIII

Average Rate of Profit Vis-a-vis Cost of Living 1958-1964

<u>Year</u>	<u>Average Rate of Profit</u>	<u>Cost of Living</u>
1958	21.2%	18.2%
1959	22.6	52.1
1960	26.3	28.8
1961	28.2	43.2
1962	35.2	51.0
1963	35.0	80.7
1964	27.9	86.6

The restoration of the rate of profit required coercive policies which the constitutional state form was unable to carry out in face of popular pressure. The nationalist component of populist ideology also became inconsistent with the Brazilian mode of economic development which was increasingly dependent upon the leadership of international capital.

The bourgeoisie as a whole, when it saw the capital-wage relation itself threatened, threw its weight behind the military coup. Its undoubted beneficiaries were however the "internationalized", "dynamic" fraction of the bourgeoisie consolidated since 1956. This fraction supported by a lucid military and civilian technocracy, moved in 1964 to seize political power directly and consolidate its hegemony within the power bloc, so as to sanction and deepen its economic dominance.<sup>84</sup>

It was only through the intervention of the army and the establishment of a military dictatorship that the popular forces could be kept in check, and the profit rates for capital restored. In this sense the coup in April, 1964, represents a watershed in the development of dependent capitalism in Brazil.

## CHAPTER FOUR

### MILITARY DICTATORSHIP AND THE PERMANENT CRISIS OF BRAZILIAN DEVELOPMENT

The collapse of the Goulart regime marked the end of Brazil's limited experiment with bourgeois democratic institutions which had proven inadequate to resolve the crisis of accumulation that became increasingly acute after the rapid expansion of the Kubitschek period. A new state form was required to restore the rate of profit to a level which would breathe new life into the industrialization process in Brazil. This chapter will examine the degree to which the military state was able to meet this objective through the active suppression of the working class and its representative organizations on an unprecedented scale, and through the expansion of the state's direct role in the production process. However it will be shown that the contradictions of dependent capitalism were ultimately beyond the capabilities of the "state of exception"<sup>1</sup> resulting in a permanent crisis of the state in Brazil.

#### The Logic of Permanent Intervention

Labour's input into the decision-making process, which reached its maximum level under Goulart, was effectively eliminated by the new regime headed by Castello Branco. This dramatic shift in the balance of power between capital and labour is crucial to the understanding of the military dictatorship as a state form. As Munck explains,

The basic factor we must keep in mind in characterizing these regimes is the seizure of state power by the armed forces, acting as an institution. This results in a predominance of coercion over consensus as the basis of bourgeois rule, and in repression becoming the major element in the maintenance of political control by capital.<sup>2</sup>

Military intervention under these circumstances is not merely a transitory stage to ensure an orderly 'changing of the guard'. The restoration of the rate of profit required a fundamental restructuring of the state which went beyond replacing one group of bureaucrats for another. In the case of Brazil, this is what distinguished the overthrow of Goulart from the coups of the past.

Le coup d'Etat de 1964 n'est pas un simple mouvement contre-révolutionnaire, mais coïncide avec le création d'un nouvel ordre politique en rapport avec le mode d'accumulation propre au capitalisme périphérique.<sup>3</sup>

The institutionalization of this new political order by the armed forces presupposed the existence of a new class of military officers capable of performing functions which transcended the boundaries of traditional military activity. The training of such a class had been initiated under the auspices of the Superior War College (Escola Superior de Guerra, ESG), founded in 1949. Based on the same principles as the U.S. National War College organized three years earlier, and with continued assistance from its American counterpart, the ESG carried out its objective of preparing,

...civilians and the military to perform executive and advisory functions especially in those organs responsible for the formulation, development, planning, and the execution of the policies of national security.<sup>4</sup>

This statement of purpose taken directly from a government decree issued on December 9, 1963, is indicative of the degree of ideological homogeneity

impressed upon the new class of military officers and civilian technocrats. Consequently, by the time of the coup, "there was already in the wings a strong team of technically able, confident men, ready to put into practice ideas and theories developed and debated over a long period."<sup>5</sup>

The doctrine of national security, NSD, provided the assential link between economic development and political stability which was to be forged under military rule. At the most general level the NSD committed Brazil to a strategy of capitalist development based on U.S. hegemony and the suppression of subversive forces which threatened such a mode of development. It was, therefore, instrumental in America's cold war offensive against 'communist expansionism'. The orientation of the offensive, however, shifted from the position which had dominated military thinking in Brazil and Latin America in general.

Previously the armed forces had been educated to defend Latin American countries against foreign attack by "Communist Russia". After the victory of the Cuban Revolution the conception of strategy changed and troops were trained and reorganized to defend the different countries from the "internal enemy" guerrillas, labor unions, students and peasants, all plotting in a psychological and real war against the existing order.<sup>6</sup>

The political history of Brazil since the coup is therefore a history of permanent internal war against all oppositional tendencies.

#### The Collapse of Labour: The Return to Estado Nôvo

The apparent ease with which the military was able to crush the workers' movement illustrated the inherent weakness of Brazilian labour organizations. Bureaucratically structured from the top down by the union leadership, and tolerated out of self-interest by a government in need of

workers' support, the unions retained their fundamentally corporatist character.

The most independent labor leaders limited their efforts to "correct" the narrow confines of the corporatist union structure inherited from the Estado Nôvo by creating the so-called "parallel organizations" (eg. the CGT). ...These central organizations continued to be prohibited by labour legislation but the government tolerated them and used them, and there were few efforts on behalf of labor leaders to legalize these de facto organizations, or to break the ties with the state.<sup>7</sup>

Given the dependence of Brazil's bureaucratic union structure on the tolerance of the Goulart regime, it becomes clear how the military was able to place "the labor movement in the same state of immobilization that it had been in before 1945."<sup>8</sup> Such a development was possible under already existing laws; the generals merely had to enforce them. However the objectives of the coup went far beyond merely restoring the working class to its subordinate role within the old corporatist structure as envisaged by Philippe Schmitter.<sup>9</sup> Rather, one must concur with the view that,

...the corporatist structures encapsulating the working class are not being simply "restored" but rather adapted to the requirements of the rapid accumulation that the state desires to promote.<sup>10</sup>

Thus the corporatist state form which under Vargas had required an increasing level of popular support to remain functional was not adequate to meet the new conditions of accumulation.

These new conditions of accumulation required a complete reorganization of the state structures and the elimination of those structures associated with the old populist regime. With the passage of Institutional Act No. 1, which "provided for the removal ('suspension') of military and civil authorities and of officials",<sup>11</sup> Castelo Branco initiated this process. Not only were those directly associated with Goulart affected by this act, but even

liberals such as former president Kubitschek were deprived of their political rights in order to neutralize their potential as an effective opposition to the junta. The purges extended beyond the ranks of the military and government. As Dos Santos explains,

There was intervention in trade unions and peasant and student organization, expulsion and repression of nationalist military men, as well as violent persecutions, assassinations, and torture of left leaders of the working class.<sup>12</sup>

Given the bureaucratic structure of the unions, workers found themselves unable to respond to the government offensive. Organized opposition to the purges was pre-empted by the swift decapitation of the unions. "The labor movement, losing its top leadership, found itself completely atomized and unstructured."<sup>13</sup>

With the working class in disarray, the regime could proceed to increase the extraction of surplus value by intensifying the exploitation of labour. As Munck explains, this was carried out through the lengthening of the average work day to twelve hours as well as the depression of real wages. In fact the regime was bold enough to refer to the program as "Ley do Arrocho Salarial" (the law to roll back salaries). The success of the program can be measured by the fact that between 1961 and 1973 real minimum wage levels dropped by 55% while the per capita product increased by 58%.<sup>14</sup> The government's wage policy precipitated a significant redistribution of income in favour of capital and its representatives as the table below shows.

Table 1Income Concentration (%)

<u>Percentage of Working Population</u>	<u>1960</u>	<u>1970</u>	<u>1976</u>
Lowest 50%	17.7	14.9	11.8
Next to lowest 30%	27.9	22.8	21.2
Next to highest 15%	26.7	27.4	28.0
Highest 5%	27.7	34.9	39.0

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From the evidence Brazil's labour policy after the coup consisted of a two-pronged attack on the working class. First labour leaders and labour sympathizers were brutally repressed in a massive purge of leftists and moderated from all sectors of Brazilian society. Second the living standards of the working class were eroded through the deliberate depression of wage levels and deterioration of working conditions. These factors acted as a countervailing force to offset the falling rate of profit which plagued the dependent accumulation process under Goulart.

Brazil's Economic Miracle

It was noted in chapter three that industrial development under Kubitschek led to a realignment of competing fractions within the ruling class. This realignment was largely attributed to the foreign dominated sector of the economy, made up of such dynamic industries as chemicals and capital goods products. This sector with its broad base of financial support, was seen by the state as the engine of development. The military coup was an essential first step in lifting the constraints placed on this sector by the nationalist government of Goulart. The anti-foreign investment

stance of the old regime was replaced by an open arms policy towards foreign capital which was greeted with enthusiasm by investors. The underlying logic of this new policy was, "...a coherent strategy of adaptation of Brazilian capitalism to the new conditions of the 'pact of dependence': integration and subordination of the national economy to the requirements of state monopoly capitalism."<sup>16</sup> By adaptation was meant the rationalization of Brazilian industry to meet the new conditions of dependent accumulation.

The importance of foreign investment to the dictatorship's strategy was clearly indicated by the Agreement Relating to Investment Guarantees signed by the American and Brazilian governments in February, 1965.<sup>17</sup> This agreement insured by U.S. investment against inflation, expropriation or even revolution by making the Brazilian government liable to repay any amount of compensation paid out by Washington to American investors. To complement this more favourable position towards foreign investment the regime mounted what Munck refers to as a policy of positive insolvency, "...which consisted in abruptly cutting off government credits to firms which failed to show an 'adequate' level of productivity."<sup>18</sup> The effects of the new direction in government policy were soon felt in the industrial centres of Sao Paulo and Rio de Janeiro as the table below shows.

Table II

Number of Bankruptcies in Rio and Sao Paulo

	<u>Rio</u>	<u>Sao Paulo</u>
1965	350	N/A
1966	500	N/A
1967	688	3,689
1968	746	3,538
1969	1,252	4,551

Brazil's rising bankruptcy rate was part of a denationalization of the private sector which in fact reflected the natural concentration and centralization of the economy. The period from 1960 to 1969 provides important statistical evidence of the extent of this concentration. For example, "...small firms (less than ten employees) decline from 91,000 to 16,000 over this period and the proportion of workers they employ declines from 18% to 3%; on the other hand large firms (more than 250 workers) increase from 900 to 16,000 over the same period, and their percentage of employment goes from 38% to 53%.<sup>20</sup>

However while private industry suffered from the effects of denationalization, the state sector was able to assume a more direct role in the economy as a result of the harmonious relationship between the military regime under Branco and Costa e Silva, and foreign capital.

In exchange for its accommodating policies, the Brazilian government received very substantial credits from the imperialist monopolies and their international organizations, in the most part for infrastructural development.<sup>21</sup>

In addition the government used such credits to expand state industries such as steel and petroleum. Thus denationalization of certain branches of Brazilian private industry did not necessarily mean the denationalization of the economy as a whole. Table III indicates the predominance of foreign and state capital during the period known as the 'Brazilian economic miracle' which lasted from 1966 to 1973. Quartim refers to this combination as the dominant bloc within the ruling class in the past coup period, with local industry and agriculture playing important but secondary roles in the development process.

Table IIIGrowth of State Enterprises Among the Largest 300 Manufacturing Firms 1966-72 (Percentage of Assets)

<u>Selected Sectors</u>	<u>1966</u>			<u>1972</u>		
	<u>MNC</u>	<u>Loc. Priv.</u>	<u>State</u>	<u>MNC</u>	<u>Loc. Priv.</u>	<u>State</u>
Iron & Steel	4	34	62	15	16	70
Chemicals	69	24	7	69	19	12
Petroleum Refining and Distribution	25	11	64	12	6	82
Total for all Manufacturing (excluding petroleum)	51	41	8	50	35	15
Total Share including Petroleum	47	36	17	42	28	30

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The economic boom of the late 1960s and early 1970s is unparalleled in Brazilian history. The growth and prosperity of U.S. investment in Brazilian manufacturing attest to this economic expansion. For example, between 1966 and 1973 sales of U.S. majority owned manufacturing firms in Brazil soared from \$1,283 million to \$5,738 million, an increase of 347%. At the same time growth of U.S. assets in Brazil climbed from \$846 in 1966 to \$2,033 million in 1973, a 146% increase. Finally, the rates of return for American manufacturing affiliates almost doubled, from 7.7% in 1967 to 14.9% in 1973.<sup>23</sup> A more detailed breakdown of U.S., and other foreign investment in Brazil is provided in Table IV below, which gives a breakdown of the growth and returns for the ten largest multinationals operating in Brazil at this time.

Table IVGrowth and Return for Ten Selected Multinationals 1967-1973

	<u>1967*</u> <u>Assets</u>	<u>1973</u> <u>Assets</u>	<u>Growth</u> <u>of Assets</u> <u>1967-1973</u> (%)	<u>Average Rate</u> <u>of Return</u> <u>1967-1973</u> (%)
Volkswagen	107.7	338.3	214	12.0
Cia. Cigarros Souza Cruz (Brit. Amer. Tob.)	115.2	226.3	96	26.5
General Motors	83.0	163.5	97	16.0
Rhodia (Rhone Poulenc)	100.0	160.0	60	9.3
Pirelli	86.1	139.8	62	19.6
Shell	54.9	114.7	107	16.5
Esso	43.5	81.0	86	16.6
General Electric	62.5	80.4	29	17.6
Alcan	32.4	71.2	120	10.4
Nestle	39.9	66.5	68	15.2
Overall Average Rate of Return				16.0

\*Assets are in millions of current \$U.S.

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The growth of multinational capital in Brazil coincided with the rapid expansion of the state sector. Indicative of this growth is the performance of the five largest state owned firms whose assets grew by 161% between 1967 and 1973. This growth compares favourably even with that of the multinationals listed in Table IV which recorded an increase of 94%. (See Table V below). Table III shows that the state increased its assets among the top 300 manufacturing firms from 17% to 30% while multinational and private local capital saw their shares decline by 5% and 6% respectively. The major industries

where state investment is paramount are iron and steel (70% in 1972) and petrochemicals (82% in 1972). Other important fields of investment where the state's role is predominant include: public utilities, banking, financing, mineral resources and certain trade functions.

Table V

Performance of the Largest State-owned Industrial Firms, 1967-1973

<u>Firm</u>	<u>Assets*</u> <u>1967</u>	<u>Assets</u> <u>1973</u>	<u>Growth in</u> <u>Assets</u> <u>(%)</u>	<u>Average Rate</u> <u>of Return</u> <u>(%)</u>
Petrobras	853.0	2,141.9	151	13.9
CVRD (Cia. Vale do Rio Doce)	133.8	637.4	376	21.8
CSN (Cia. Siderurgica Nacional)	356.0	352.7	-1	9.6
Cospia (Cia. Siderurgica Paulista)	126.5	399.9	216	0.4
Usiminas (Usinas Siderurgicas de Minas Gerais)	168.4	271.4	61	8.2
Averages	327.5	760.7	161	10.8
Comparative Multinational Averages**	72.5	144.2	94	16.0

\*Capital plus reserves in millions of current \$U.S. Averages are unweighted.

\*\*Figures are for the ten selected multinationals from Table IV.

The mutual interest of the Brazilian state and the foreign sector in fostering accumulation is illustrated by the growth of state involvement in joint ventures with multinationals and local private capital. Evans outlines the state's strategy behind these projects and their significance for Brazilian development.

They are a new way of drawing the multinationals into a "nationalist" schema of accumulation. They also allow the state to participate in operations where it would have had difficulty working on its own. Through concrete alliances the state can enter areas that lie outside the production of basic services and inputs without actually displacing the multinationals. By bringing the multinationals into ventures that provide basic inputs, the state can retain control over these strategic goods while forcing the multinationals to share in underwriting their production.<sup>26</sup>

The case of the Polo do Nordeste petrochemical project is presented by Evans as an example of such a joint venture. In return for the long term support of multinational capital for "a project which is defined in essentially nationalist terms"<sup>27</sup> the state company Petroquisa, a subsidiary of Petrobrás, accepted responsibility for the initial costs of building a petrochemical plant in the north-eastern state of Bahia. Financial backing for such a commitment by the state comes from money earned through export sales and foreign borrowing. While this posed no major barrier to state investment during the boom period it quickly became a heavy financial burden by the late 1970s as will be shown below.

Although the local industrialists in Brazil were relegated to a subordinate status within the ruling class after the coup they were still able to play an important role in conjunction with the dominant bloc. The older, labour intensive industries such as textiles, leather goods and some food production were dominated by local private interests. As well the local bourgeoisie often plays an integrative role which is indispensable for the successful linking of multinational capital to the local market. Individual businessmen can sit on the boards of competing multinational subsidiaries to ensure that the competition does not become detrimental to the health of either company.<sup>28</sup> Local capital is also crucial for the commercial aspects

of multinational expansion. For example,

In both pharmaceuticals and textiles, strategies of commercialization that involved the construction of a dense network of ties with buyers were a source of strength for local firms. Strength in this area helped compensate local firms for the power of the multinationals in both technology and marketing based on advertising.<sup>29</sup>

Thus while local capital may have lacked the technological base to compete with multinational capital, certain elements within the local bourgeoisie played an important role in facilitating the penetration and expansion of foreign capital in Brazil.

A major impetus toward economic growth came in 1966 when the military decided to embark on the establishment of an industrial military complex with the support of local industry. Dos Santos notes that purchases by the Brazilian military and the escalation of the Vietnam War helped to fuel the development of the steel and petrochemical industries, as well as increasing the value of Brazil's exports. This expansion coincided with the growth of the Brazilian army and military police which the government justified as part of its strategy to combat internal subversion.<sup>30</sup> However the links between the military buildup and economic development went beyond the need to combat subversion, real or imagined. Military expansion was an integral part of Brazil's dependent economy.

Men in uniform become a fundamental element in the fight against unemployment, and it becomes even more necessary to increase military investments and to intensify the militaristic climate in order to be able to stimulate the system and at the same time to guarantee the working of the "model" of dependent capitalist development.<sup>31</sup>

Given the pattern of industrial development during the boom period it was not unrealistic for the government to consider the potential threat of subversion. While the dynamic, producer goods, sectors grew at a rate

of over 10% per annum between 1968 and 1972, growth in the traditional, consumer-oriented industries, grew by less than 1% from 1962 on. Production was geared for the external market and upper income groups while real wages declined for the bulk of the population reducing internal demand. In effect,

...the basis for the "economic miracle" of 1968-1974 was laid by the cyclical downturn of 1962-1967, which led to a violent restructuring of the economy. The basic pre-condition for this cyclical upturn was the enormous increase in the rate of exploitation ensured by the military regimes which followed the 1964 coup.<sup>32</sup>

However the cyclical downturn, which made possible the economic miracle for capital, also created the conditions for a regrouping of labour and the reemergence of organized opposition to the regime.

#### Marginalization of the Local Bourgeoisie and the Consolidation of the Military-Technico Bloc

Owing to the ferocity of the military's campaign against its opponents, it was not until 1967 that oppositional forces were able to challenge the authority of the government. By that time the regime had to contend not only with the direct targets of its repression, but also with certain class interests which had initially supported the coup. The process of capital concentration fuelled by the policy of positive insolvency caused a significant increase in unemployment stemming from the bankruptcy of many local industries which tended to be labour intensive in their orientation. Thus the working class was threatened with unemployment in addition to the depression of real wages.

However discontent spread well beyond the factory gates as opposition mounted within the local bourgeoisie and its middle class supporters to the denationalization policy and the general lack of freedom under military rule.

A growing antagonism developed, therefore, between the advocates of military rule and those of civilian rule. The bourgeois opposition was organized under the Frente Ampla (broad front) which called for the removal of the military from political life, and the re-establishment of civilian rule. The alliance was led by Carlos Lacerda, an ambitious and opportunistic civilian politician who had been amongst the military's strongest supporters in 1964. His presidential ambitions thwarted by the prolongation of military rule, Lacerda then challenged the government under the cry of democratic reform.<sup>33</sup> The threat of the Frente Ampla was short-lived however, as Lacerda's supporters came to distrust his personal ambition and political opportunism causing divisions within the alliance. These divisions played into the hands of president Costa e Silva who appeased the middle classes by introducing a minimum of democratic reforms, undermining beyond repair the base of Lacerda's support. The alliance was finally banned in December 1967, with almost no opposition. Quartim regards this defeat as a radical departure in Brazilian politics.

The failure of this civilian challenge was a decisive turning point in the political history of the regime for it proved that the preservation of bourgeois structures was now inevitably linked with the continuance of a military hegemony. Henceforth political debate within the ruling class bloc would only take place through the mediation of the army, which had now added a monopoly in politics to its monopoly of violences.<sup>34</sup>

Henceforth the competing fractions within the bourgeoisie tended to tie themselves to competing cliques within the military in order to further their interests. The foreign dominated sector tended to favour that faction controlled by ESG graduates who were more internationalist in their orientation in that they continued to view nationalism as a leftist contamination,

and were consequently more sympathetic to foreign investment. Local industry leaned towards the nationalist faction of younger officers, particularly during periods when the threat of labour unrest was less intense, usually owing to the severity of state repression. In other words the sharp divisions which existed in the armed forces tended to reflect the makeup of the Brazilian ruling class.

The military continued to be divided over the question of nationalism as a vehicle for development. Castello Branco led the internationalist, or 'cessionist' faction which regarded nationalism in light of the Goulart period. This group reflected the ideology of the ESG which emphasized security, and to a lesser extent nationalism. In face of growing leftist opposition in the early 1960s, security took precedence over nationalism and the cessionists were able to take control of state apparatus following the coup. However, as Flynn points out, this faction proved to be a minority within the officer corps of the military. The main body of the corps was made up of younger hardline officers, hostile to the view held by the cessionists that modernization was possible only in the broader context of economic interdependence and the integration of Brazil into the world economy. In contrast, the younger officers advocated a rightwing radical reformism inherited from the young tenentes of the 1920s and 1930s. Thus the military continued to be plagued by divisions which had existed for almost half a century. The influence of tenentismo can be seen in,

...the twin urges to be more authoritarian--purge more politicians, disband Congress and political parties, censor the press, cancel all elections--and to be more radically reformist--expropriate large landownings, confiscate wealth of profiteering businessmen, and have more nationalistic assertive relations toward foreign capital and the United States.<sup>33</sup>

In other words, while the nationalist faction was not hostile towards foreign investment, recognizing its importance to capital accumulation, it advocated that such investment be directed as much as possible towards meeting the objectives of national economic development. This was the prevalent view of the officers who backed Artur da Costa e Silva as successor to Branco and who took office in March 1967. Branco had been useful in the initial crackdown on the working class and in reassuring foreign interests that Brazil was safe for private investment. However denationalization, which was at the centre of Branco's economic policy, was inadequate as a strategy for future development. For the majority within the armed forces, development entailed a strong nationalist element including a central role for the state in the modernization of the productive forces. This led to the consolidation of the state sector as the directing force of economic development.

This sector could be defined as a new type of national bourgeoisie, whose economic base is no longer national private capital and whose political strength derives not from the alliance between the bourgeoisie and the popular masses, but from military nationalism (backed up by the technocrats involved in the management of the public sector).<sup>36</sup>

The exclusion of the popular masses from the political process is the key feature distinguishing the state of exception from the populist era which preceded the coup. Under these new conditions the technocrats, or 'technicos' performed the function of adapting "the Brazilian economy to the new conditions of dependence obtaining in the era of imperialist decline."<sup>37</sup> Such an objective, because of the unpopular measures it required, necessitated the support of a hardline military government. For this reason the state sector under the military entered into an alliance with the 'technicos'. The latter have the know how to make the economy function smoothly while

the former provide a suitable political climate for that know how to be used. Because of the strength of this alliance the technicos, led by Roberto O. Campos and Leopoldo de Bulhoes, were able to implement a stabilization program which restored economic growth at the expense of workers and many local industrial sectors.<sup>38</sup>

Re-emergent Opposition and the Imposition of Institutional Act Number Five

While the challenge of the Frente Ampla was neutralized effectively without any substantial shift in government policy, the threat from more militant sectors of Brazilian society proved too great a burden, even for the 'constitutional dictatorship' of Costa e Silva. From 1966 to 1968 the students acted as the vanguard of the radical opposition organizing large demonstrations in the major urban centres to protest military rule in general, and specifically, the attempt by the government to militarize the university campuses by placing them under the direct control of the Ministry of Labour with considerable input from business representatives and American aid programmes. These measures by the government would serve to restrict the activities of academics in politically sensitive faculties.

In short, the universities were to be transformed into extensions of private industry. They would be devoted to the training of technical cadres as well as imparting a sub-imperialist, technocratic, elitist and viciously anti-communist ideology.<sup>39</sup>

Student organizations would become like the official trade unions--vehicles through which the regime could regulate student activities. The government response to student demonstrations vacillated between repression and tolerance, a response which reflected the contradiction within the regime

between the need to maintain order and the desire to form a basis of legitimation for the government of Costa e Silva which had promised a limited liberalization of the political system.

The 'March of a hundred thousand' on June 26, 1968 fuelled concern in the government that the struggle against subversion could not be compromised by even token gestures towards restoring constitutional freedoms. The participation of labour delegates in the march, along with the increasing number of bombings which coincided with student protests, alerted the military to a growing political crisis which could de-stabilize the regime. Three days after Costa e Silva met with student delegations over their concern with police brutality the government decreed a ban on all demonstrations and protest marches. In addition the police launched a series of invasions of university campuses, arresting and savagely attacking students, and destroying university facilities which were seen as hotbeds of subversive activity.<sup>40</sup> Finally in September 1968, while the delegates of the National Union of Students (UNC) held its annual congress, the army moved in and arrested eight hundred of the one thousand students. With most of its leaders in prison the student movement declined as a focal point of opposition.

While there were no organizational links between student organizations and labour there was a growing solidarity between workers and students as evidenced by the workers' participation in the march of a hundred thousand. Labour opposition initially followed the students' example but quickly gained a momentum of its own based on workers' opposition to the government's wage policy. Called the Movimento Intersindical Anti-arrocho (MIA) the union

opposition began to organize within the traditional union structure and pressured union leaders to press for wage increases to compensate for the effects of the government's wage freeze policy. Initially the union opposition concentrated its efforts on replacing what it viewed as a corrupt leadership which had sold out to the government. Thus the opposition attempted to work within the structure, participating in union elections which were largely orchestrated by the Ministry of Labour. However, in April 1968, engineering workers in Belo Horizonte, Minas Gerais, organized the first industrial action to be carried out independently of the official union structure. Factory committees were formed against the advice of the union's president and at the end of the month 15,000 workers went on strike. The strike, declared illegal by the government, ended after eight days with the military occupation of Contagem, the industrial suburb of Belo Horizonte where the strike was centred. In July a similar strike occurred in Sao Paulo with the same results. The regime had little difficulty in repressing isolated acts of political defiance. The one occasion when the union opposition was successful in challenging the government's authority was at the May Day rally in São Paulo where union activists seized the speakers platform from the governor and his union bureaucrats, and turned the demonstration into an anti-government protest. The demonstration had a broad base of support from leftwing labour organizations and from student organizations.

The demonstration showed the strength which the labor "opposition" had acquired as a result of the super-exploitation of the working class. It also demonstrated the radical and violent forms of struggle which began to be used, in an open break with the populist past of the labor movement. But these forms of struggle were also characterized by spontaneity with little thought to the subsequent stage.<sup>41</sup>

Thus the strikes and rally of 1968 showed both the strengths and weaknesses of the labour movement, as well as the limits of government tolerance for mass movements.

From this point Costa e Silva came under increasing pressure from hardliners within the government to abandon his limited liberalization program and adopt an unequivocal strategy against the opposition based in the national security doctrine.

What new was developing, even more sharply and strongly, was a spiral of violence and a growing polarization of politics, a process in which dialogue was becoming steadily more difficult as the hardening of the authoritarian system and the closing of all legal forms of protest pushed the opposition into direct confrontation, which, in turn, produced still harsher reaction.<sup>42</sup>

On December 13, 1968, Costa e Silva moved to resolve the intensifying class conflict with the imposition of Institutional Act Number Five. This act has been referred to as the coup within the coup. It effectively eliminated what remained of the political process and the judicial system replacing it with an unfettered dictatorship. Under the Act's terms, the president had the right to close Congress, state and municipal assemblies at any time. In fact Costa e Silva did immediately close Congress after the imposition of the Act, and it was not reconvened until late 1969 after his death. He could cancel the mandate of any government representative and fire any public servant or military official. Such persons could also be deprived of all political rights for ten years. The judiciary was also subject to presidential intervention and thus became a vehicle for ensuring the carrying out of executive orders. Although many of these measures were contained in previous institutional acts, in particular act number two which was passed in October 1965,<sup>43</sup> the fifth act was different in

that there was no time limit attached to it.

Of the subsequent decrees passed after act number five, the most significant was the National Security Law passed on September 29, 1969 after Costa e Silva's death. It essentially empowered the state to use whatever amount of repression deemed necessary to neutralize any real or perceived threat to national security. The law defined as crimes against national security,

...those acts which lead to "psychological warfare", subversive warfare, or "any threat or pressure of any form or nature which has an effect on the country." Furthermore, the concept of national security itself includes the definition of the enemy as existing within the nation and, thus, that the repression of internal pressures and of social dissent is a necessary part of defending the security of the nation.<sup>44</sup>

The National Security Law amounted to a blank check for the repressive apparatus of the state to deal with any form of protest or dissent. It was only fitting, then, that Costa e Silva's successor would be General Emilio Garrastazu Medici, a hardliner who previously ran the National Information Service (SNI), the informational network for police and military organizations. Medici's regime, the most brutal in Brazil's post-coup history, successfully consolidated the dictatorship from 1969 to 1972 using any form of repression, including a large measure of torture, to achieve its objective. It was under these social conditions that Brazil's spectacular economic growth rates were achieved.

#### Agriculture and the Military State

It was noted in chapter three that the value of Brazil's traditional commodity exports had declined drastically over the ten year period immediately

prior to the coup. This was particularly true for Brazil's most important export, coffee, which had declined in value by almost fifty percent. With the development of Brazilian manufacturing, coffee became less important as an export commodity. The table below illustrates this decline as well as Brazil's shrinking share of the world coffee market as a whole.

Table VI

<u>Year</u>	<u>Coffee Exports as % of Total</u>	<u>Brazilian Coffee as % of World Coffee Imports</u>
1952	74	49
1960	56	39
1966	44	34

45

As the value of coffee declined, the military was able to impose stricter conditions on its production rather than prop it up by artificial means such as the valorization schemes employed by Vargas. Consequently the government imposed restrictions on coffee production which reduced the number of coffee bushes from 4.4 billion to 2.6 billion between 1962 and 1967.<sup>46</sup> That the regime was able to impose such drastic measures on what was still the leading agricultural export, attests to the decline of latifundist power in the post coup period, and its subordination to the dominant bloc within the ruling class.

The role of agriculture under military rule is consistent with the theme of contradictory unity within peripheral capitalist production which was discussed in an earlier period of Brazilian development. The strengthening of traditional social structures in the rural areas is a precondition for capitalist development on the whole. An example of this process was

the government's attempt, beginning with the Costa e Silva regime, to encourage social stability through a process which Celso Furtado referred to as 'pastorization'.<sup>47</sup> In part, this program became necessary as a result of the growing unemployment caused by the denationalization policy. The unemployed from the urban centres, mainly from the overcrowded northeast, were encouraged to migrate to the unoccupied lands of central Brazil. Here they would cultivate the land and engage in agricultural production which could feed the urban population and reduce Brazil's demand for costly imported foodstuffs. As the process continued and the urban population declined, the new agricultural areas could 'retreat' into subsistence farming. This would help reduce social tensions caused by Brazil's burgeoning reserve army of labour. In essence what the regime's agricultural policy amounted to was an attempt to offset the rising organic composition of capital and reduce the potential for class conflict. A further benefit of the planned 'colonization' which has become more important with the recent development of the interior is the availability of cheap labour for Brazilian and foreign latifundists. Thus the process of primitive accumulation, the separation of the peasant from his means of production, begins anew, even if it does not lead immediately to the full development of wage relations.

Although the pastorization process gives evidence of the reinforcement of the traditional mode of production, it is not to suggest that modernization within the agricultural sector has not taken place. Even before the coup, the influence of agribusiness and state incentives was already making itself felt particularly in the more prosperous region of the centre-south. This is in contrast to the northeast which remains relatively backward in terms of its production relations. However, the penetration of

capitalist relations in Brazilian agriculture served to intensify the crisis of surplus labour, since capital intensive farming created more unemployment. This has resulted in the repetition of the pastorization process further into Brazil's interior and the persistence of subsistence agriculture. Thus as Bernardo Sorj concludes, the transformation of the class structure of Brazilian agriculture finds its unity in the expansion and integration of agribusiness which also determines the existence of precapitalist modes of production.<sup>48</sup>

#### Medici's Economic Policy: The Road to Recession

Medici had come to power with the backing of the hardline faction within the military which was critical of Costa e Silva's reluctance to crack down on oppositional elements. After the strikes of 1968 the bulk of the officer corps was prepared to sacrifice nationalist reformism for the sake of national security and thus did not actively oppose the concessionary politics of Medici and his finance minister Delfim Neto towards foreign investment. The regime also made concessions to the middle classes, giving generous wage increases to technical employees and middle level executives. This policy had the effect of stimulating growth in the more technologically advanced sectors of the consumer goods industry, as well as securing a limited base of political support for the regime from the middle classes and skilled labour. However, Dos Santos notes that the stimulus to the advanced consumer goods industries did not extend to the so-called traditional industries including textiles, foodstuffs, clothing shoes, furniture and beverages.<sup>49</sup> These were the industries which relied more heavily on labour intensive production, and also met the consumption needs of the working class.

The lack of growth in this sector therefore served to exacerbate the polarization of wealth, and at the same time fostered an increasing level of consumption aspirations among workers who witnessed the conspicuous consumption of the middle classes.

The emphasis of the regime on luxury consumer goods and military production for security also had a number of negative effects on the economy as a whole. At the centre of the problem was the government's reliance on foreign capital and its domestic allies which led to an increase in the balance of payments deficit. The remittance of profits abroad placed restrictions on the state's resources. In addition, Medici's subsidization of middle class consumption and military expansion ironically had similar economic consequences as Goulart's subsidization of organized labour through wage concessions during the constitutional period. As in the latter case Medici's policy accelerated the depletion of the state's resources, a process which could only be countered with either an increase in the money supply which would fuel inflation, or the increased taxation of higher income groups which would undermine the logic of Medici's consumption-oriented policy. In fact, as consumption among these groups reached the saturation point, it would be necessary to broaden its base of consumption in order to sustain economic growth. Thus Medici was left with no alternative but to adopt the former strategy. These factors, coupled with rising unemployment caused by the increasing capitalization of industry and agriculture, were ominous signs of an impending economic crisis which would bring an end to the economic miracle.

The internal contradictions of the Brazilian economic model were finally exposed with the onset of the world economic crisis in 1973. Brazil's

import needs combined with the contraction of Brazil's export markets caused a dramatic reversal in her balance of payments from a surplus of \$2.1 billion in 1973 to a deficit of \$4.5 billion in 1974.<sup>50</sup> Inflation during 1974 reached 51% owing to a 47% expansion of the money supply during 1973 and the costs of imports, in particular oil which amounted to \$12.5 billion. This was a considerable drain on Brazil's foreign currency reserves and contributed to an increase in Brazil's foreign debt from \$12.8 billion at the end of 1973 to \$22 billion at the end of 1975.<sup>51</sup>

The military recognized, by 1974, that the system of economic growth based on the expansion of the internal market and increased consumption had quickly exhausted itself. As Dos Santos notes, the strategy was unpopular with monopoly capital which derived its benefit more from the expansion of export-oriented, capital goods industries than from the expansion of consumer industries which were dominated by local interests. As inflation rose and consumption among the middle classes tapered off, it became clear that Medici's policy would be short-lived. Thus when Ernesto Geisel came to power in 1974 Brazilian economic policy was steered away from its dependence on internal consumption despite the protests of local industrialists. A new economic plan called for a re-emphasis on the development of the capital goods industries under the direction of the state sector, a plan which encountered increasing hostility from these local interests which had benefited the most from Medici's economic policy. With the introduction of the national economic plan by President Geisel in 1974, friction intensified within the ruling class between the advocates of 'statism' who were in accordance with the government's program of state-led growth, and the advocates of 'private enterprise' who were largely made up of the local

bourgeoisie, and who opposed the encroachment of the state on the economy. The challenge of the local bourgeoisie, as reflected in the "anti-estatização" campaign launched in 1976, illustrates the limitations of dominant bloc hegemony within the ruling class. Although local capital was incapable of appropriating the role of foreign capital in providing the economic basis of accumulation, it was powerful enough in its own economic sphere to exert considerable political pressure on the government. Thus, even though the alliance between foreign capital and the state was at the heart of the dependent accumulation process, its dominance was never absolute. Had this been the case, intra-class rivalry would not have been a factor in dependent development.

Ernesto Geisel, who had proven his administrative capabilities as the former director of Petrobrás, came to office with the objective of centralizing the economic decision-making process to ensure the rational planning of Brazil's future industrial development. To achieve this objective, he organized the Secretariat for Planning and the Council for Economic Development.

The Secretariat of Planning strengthened the Ministry of Planning, making it directly subordinate to the president. The Council for Economic Development was also to be presided over by Geisel himself, with the Secretary of Planning as its Secretary-General and the Ministers of Finance, Agriculture, Industry and Commerce, and the Interior as its members.<sup>52</sup>

These innovations reflected a departure from the Medici regime under which authority tended to be delegated to individual ministers, such as Finance Minister Deffim Neto, who were indirectly responsible to the president. Centralized state planning, increased state investment and the expansion of

state enterprises were the key elements of 'statization' under Geisel.

The opponents of statization led by the São Paulo industrialists expressed dissatisfaction with the growing hegemony of the dominant bloc. In 1976 an anti-statism campaign was launched in the news media through which the industrialists criticized the government's assault on free enterprise.

Private sector organs made much of the unfair advantages that state firms enjoyed vis-a-vis the private sector, and announced the impossibility of creating a strong, healthy, competitive private sector in the face of the overwhelming predominance of the state in the economy.<sup>53</sup>

The claim was also made that the state was giving incentives to foreign firms to provide services within the capability of local capital. As Munck explains, however, the statist/free enterprise debate ignored the fundamental issue behind the reorientation of the economy.

The key aspect is rather the need to carry out the re-articulation of the economy after the end of the substitution of durable goods cycle, and to lay the basis for a new level of accumulation capable of substituting for the import of "capital" goods and guaranteeing the provision of basic industrial inputs such as steel and energy sources such as hydroelectric power.<sup>54</sup>

As a consequence of this re-articulation of the economy, capital goods production between 1975 and 1977 increased threefold, while the number of heavy machinery manufacturers increased from one, in 1974 to twenty-one in 1978, half of which were state-controlled.<sup>55</sup>

The ability of the state to exert its authority within certain industries without compromising the interests of foreign capital is illustrated by Geisel's oil policies, particularly those regarding Petrobrás as explained by Flynn.

The distribution of petrol, which had remained in the hands of the international companies, was largely brought under the control of Petrobrás, but without closing down the stations. In building up the petrochemicals industry he had allowed foreign private investment, but acquired the necessary holdings for Petrobrás so that it retained control of the production of the raw materials needed by the petrochemicals industry. He also created Braspetro, an international subsidiary of Petrobrás, reaching oil production agreements with producing countries that found themselves in conflict with the international oil companies.<sup>56</sup>

Thus while international capital was not always able to determine the outcome of state policy, its prerogative to accumulate capital was never seriously challenged by the regime, illustrating the compatibility of interests between the main elements of the dominant bloc.

The development of capital goods industries required a massive infusion of capital which foreign investors were hesitant to risk. As a result the state increasingly relied on debt financing, as opposed to direct foreign investment, in order to meet its objectives. Exacerbated by the effects of the recession, Brazil's foreign debt mushroomed during the late 1970s from \$22 billion in 1975 to \$40 billion in 1978.<sup>57</sup>

Without this financing, Brazil and Mexico would have been forced back into a more extensive use of domestic resources. This would have forced policymakers to accept either a lower target rate of growth or, alternatively, a drastic change in the fiscal financial, exchange, and trade politics in order to mobilize sufficient domestic resources to have serviced the higher desired rates of growth.<sup>58</sup>

The latter alternative would have set the government on a collision course with foreign capital which would have viewed with suspicion the nationalist overtones of such a policy. The alternative of accepting lower growth rates was precluded by the abundance of loan money available particularly in Europe from 1967 on. Thus the state was able to maintain higher growth rates during the 1970s (see Table VII below), but at the price of leaving

an enormous foreign debt for future administrations to cope with.

Table VII

Percentage Rates of Growth of Domestic Product and  
Industrial Output 1950-1978

<u>Period</u>	<u>GNP</u>	<u>Industry</u>
1950-55	6.8	7.8
1955-60	6.8	10.0
1960-65	4.5	3.7
1965-70	7.5	10.8
1970-75	9.3	11.8
1975 (estimated)	5.8	6.7

59

Opposition in the 1970s

Brazil's industrial development, based on the penetration of foreign capital, had a major impact on the working class, which became clear by the early 1970s. José Alvaro Moisés argues that foreign investment has led to a differentiation of the industrial structure, which in turn fosters a heterogeneity within the working class.<sup>60</sup> Consequently, in the most dynamic sectors, those with the highest degree of foreign penetration, labour organization also tends to be more dynamic, or militant. The very nature of workers' demands in these sectors reflects a more sophisticated level of conflict.

The first signs of resistance appeared in 1972 after labour had recovered from its defeat in 1968. A grassroots response to deteriorating wage levels, caused by rising inflation, manifested itself in a series of localized strikes and slowdowns by metal-workers from several steel and automobile plants, two of the most dynamic sectors of Brazilian industry. This

mobilization of the metalworkers occurred outside the official union structures, and without the knowledge of the pelegos which indicated the organizational capability of the rank and file. In the next two years similar industrial actions occurred which increasingly resulted in 'under the counter' pay increases from the individual factory owners.

Thus, a conflict situation at the factory level led company directors to break the rules imposed by the government. This certainly did strengthen the action potential of the rank-and-file movement and allowed for an accumulation of experience which could prove valuable to generate and consolidate solidarity and internal cohesion.<sup>61</sup>

Because independent factory committees were outlawed by the government, the Oposição Sindical was created in São Paulo as a collective channel to articulate workers' demands and organize their initiatives.<sup>62</sup> Once again a parallel labour organization challenged the authority of the traditional trade union structure which dated back to the Vargas era.

Geisel's commitment to political liberalization, or 'decompression', which he had espoused since coming to power, received a major setback in the Congressional elections of November 1974. Despite his 10% emergency wage bonus designed to appease labour, the government party ARENA suffered a major defeat as the opposition MDB party more than doubled its representation in Congress. In addition, the MDB also increased its share of seats in the senate.<sup>63</sup> Its greatest success, however, was the capture of six state assemblies, including the leading industrial states of Sao Paulo, Rio Grande do Sol and what was later to become the state of Rio de Janeiro. In its victory the opposition enjoyed not only the support of labour, but also of various sectors of the middle classes, including the local industrialists whose position had been eroded by the failure of the 'miracle' and

the increasing threat of state power, as well as students, the press and the church which increased their demands for the normalization of Brazilian politics (eg. a return to constitutional democracy), and an end to the excesses of the regime. The military's failure at the polls pointed to an institutional crisis which has continued to haunt political leaders and those within the dominant bloc.

The seriousness of the current political crisis currently faced by the regime is related to a recurring problem of the dominant classes, namely, their inability to establish mechanisms for political domination based on some sort of consent from the social classes as a whole, and especially the popular classes.<sup>64</sup>

Thus the failure of the ruling class to legitimate its dominance through bourgeois democratic institutions represents a crisis of hegemony which has been central to Brazil's political development throughout the twentieth century. As Moisés explains,

Skipping from crisis to crisis and facing the consequences of serious defeats in the electoral arena, the Brazilian military government never failed to promise to "redemocratize" the country these past 14 years - yet whenever conditions seemed propitious for such redemocratization, some fresh crisis emerged and served to end so-called "liberalizing" projects.<sup>65</sup>

The localized industrial actions organized by the Oposição Sindical continued through the mid-1970s serving to "generate and consolidate solidarity and internal cohesion among the various groups which were active at the various levels."<sup>66</sup> It was the consolidation of this grassroots movement which made possible the mass demonstrations and strikes of 1978. Organized by the Metalworkers Union of São Paulo and the ABC region (Santo André, São Bernardo and São Caetano), the strikes were launched in an attempt to make up for wages lost through the wage indexing system used by the state

which tied wage increases to the inflation rate. The revelation in 1977 that the previous government had tampered with the wage system made matters even worse for Geisel, whose attempt to placate labour, including a 43% wage increase after the 1974 elections, were proving totally unsuccessful.

An investigation by economists from the International Monetary Fund forced the government to admit that Delfim Neto, former Minister of Finance and father of the "economic miracle" had doctored the inflation figures for 1973. As a result, workers had been robbed of 24.1% of the raises legally due them under the official indexing system.<sup>67</sup>

Mass meetings were mobilized immediately to pressure the government to compensate the workers. In May, 1978 metalworkers struck for a 20% increase and won. As a result of the strike's success, the Oposição Sindical called for,

...the transformation of the unions controlled by the military and its puppets into genuine instruments of class struggle, giving equal importance to organizing the working class at the base level and to combining legal and clandestine forms of struggle.<sup>68</sup>

This meant the formation of factory committees and inter-factory committees to strengthen the network of union activists which would supersede the authority of the official union leadership. However the opposition was only partially successful in its objective. Not all the union locals had been able to unseat the pelegos to replace them with activist union leaders known as 'autenticos'. Thus Joaquim do Santos, an experienced pelego and the leader of the metalworkers union in São Paulo was able to manipulate a strike vote after the walkout of 300,000 metalworkers to win a compromise settlement which fell far short of workers' demands. This broke the momentum of the movement temporarily and strikes led by the autenticos in

Osasco ended in defeat for the workers in face of increasing resistance from the employers.<sup>69</sup>

The government's divide and conquer tactic proved only a temporary barrier to labour militancy. On March 12, 1979, two days before the inauguration of Geisel's successor, João Baptista Figuerido, metalworkers in the ABC region went on strike demanding government recognition of shop floor union delegates, increased job security and a minimum wage of U.S. \$200 per month. This attests to the militancy of the 'autenticos' such as Luis Ignacio da Silva (Lula), president of the Metalworkers Union of São Bernardo do Campo and Diadema, who has become a central figure in the labour movement in the 1980s. The strike spread to Sao Paulo, where auto workers overturned their leaders' decision to compromise with the government. When Figuerido declared the strike illegal on March 16, 1979 broad sectors of the population including students, churches, lawyers and journalists came out in support of the strikers, collecting food and money for their cause. Within a week the government responded by intervening in the unions, replacing the autenticos with more agreeable union leaders and occupying the union headquarters in Sao Bernardo. After two days of battling with police, the workers were finally subdued by government forces. While the fighting ceased, the workers remained off the job until the government made a compromise offer and Lula, at a rally of 70,000 workers recommended that they end the strike to prevent a permanent intervention of the unions. Although the workers agreed to Lula's recommendation, the strike was never completely resolved as workers demanded the reinstatement of their leaders and refused to work overtime as a safeguard against stockpiling for future work stoppages. In addition, militant public employees struck in several cities and states, testing

the liberalization movement initiated under Geisel, and continued under Figuerido.

The strikes of the late 1970s represented a significant step forward for Brazil's labour movement. Workers regained the right to strike for the first time since its abolition in 1964. The institutionalized trade union organization lost its monopoly of power over the labour movement through the formation of factory committees, integrated into the broadly based Oposição Sindical, and through the challenge of the militant autenticos to the government union leaders, the pelegos. Although the strikes were ostensibly a response to the government's wage freeze and its failure to meet even the inadequate provisions of the official indexing system, its implications went much further.

What remains unclear is whether the strike movement can be contained within its present economic dimensions, or will evolve into a clear political challenge to the dictatorship and its capitalist model of development.<sup>70</sup>

It is this ambiguity which reinforced the split within the military between the hardliners who favoured a crackdown on dissenters, and the 'moderates' who continued to press for a limited appeasement of labour in order to give the regime a semblance of legitimacy. However, recent Brazilian history has shown that should the pressure from the working class continue to mount, the split within the military can be expected to be resolved in favour of the hardliners who would then have a free hand to end the liberalization and return to a more repressive form of dictatorship.

### Conclusion

The period since the coup has been marked by a rapid modernization of the productive forces, based on a reorientation of the economy toward the

external market, ending the substitution of consumer goods cycle which by the early 1960s had ceased to function as the motor of capital accumulation. Military intervention had as its objective the restoration of the rate of profit through the intensification of the exploitation of labour, and through the employment of state and foreign capital which would lay the basis for a new cycle of accumulation. This new cycle of accumulation, based on the development of the capital goods sector and the production of high technology manufactured goods for export, required massive investment, some of which came from profits of state enterprises, and some of which came from direct foreign investment. However, it has been noted that Brazil's economic growth during the 1970s was increasingly reliant on debt financing by which the state assumed the risk of investment.

By the 1980s the consequences of Brazil economic strategy became clear, as the foreign debt carried the country to the brink of insolvency. International Currency Review estimated in November 1982, that the foreign debt, including short term trade credits and indigenous loans secured through offshore centres, was close to U.S. \$100 billion, well above the official figure of approximately U.S. \$80 billion.<sup>71</sup> The doubling of the official debt figure from U.S. \$40 billion in 1978 was attributed largely to the rise in interest rates which greatly increased the cost of serving the debt. Thus the foreign debt has played a key role in fostering Brazil's integration into the world economy, and has illustrated clearly that Brazilian development remains a dependent development. As a result, while Brazil's economic crisis has its own internal dynamics, there is also the external dimension which limits the state's capacity to resolve the crisis. The world recession caused

a decline in demand for Brazil's manufactured exports as well as a drop in the price of traditional commodities such as coffee, soya bean and iron ore. This decline further frustrated the government's attempts to meet its debt payments.

International capital has tried to impose an austerity program on the government in return for extended credits to cover Brazil's debt servicing cost. The conditions proposed by the IMF in 1982 included:

- A change in the prevailing wages and salary policy whereby the minimum wage is adjusted every six months, in accordance with changes in the Cost-of-Living Index--an arrangement which the Fund considers to be a virulent engine of inflation.
- A drastic reduction in subsidies, especially those extended to exporters and to the Brazilian agricultural sector.
- The liberalization of imports; and
- The reduction and eventual elimination of exchange controls.<sup>72</sup>

The IMF package advocated a return to the cessionist policies characteristic of the Branco and Medici regimes, and a break with the nationalist orientation of the current regime under Figuerido. It also posed a serious challenge to the liberalization ("distensao") policy initiated by Geisel in the early 1970s and incorporated by his successor. By attacking the wage policy the government would inevitably be drawn into a major confrontation with a powerful, militant and newly independent union movement. As Munck notes, the 'liberalization' under Geisel was "threatening to become an upsurge of the masses under Figuerido."<sup>73</sup> Thus in 1983, as in 1963, "The capital-wage labour relation is at the centre of the developing crisis of the Brazilian state."<sup>74</sup> The current economic crisis leaves few options open to the dependent capitalist state. As class contradictions intensify it will be necessary to defend those interests to which the military is directly and indirectly indebted.

A return to the repression of the national security state looms large on Brazil's horizon in the 1980s.

## CONCLUSION

This thesis has sought to identify and evaluate specific concepts arising out of Marxist state theory as they apply to the process of dependent capitalist development. The utility of these concepts has been illustrated through a concrete study of Brazil's economic development and the role of the state in that development. Such an approach is consistent with Marx's methodology which necessitates the analysis of empirically given circumstances in order to understand the relationship between the mode of production and its corresponding state form. Given this methodology, the analysis of dependent development in Brazil enhances the understanding of several theoretical issues raised in chapter one.

First, with regard to the process of dependent development itself, it has been shown that Brazil's integration into the world market resulted in the blocking of the productive forces, and the reinforcement of Brazil's relations of dependence with advanced capitalism. These relations were defined through the exchange of agricultural-export commodities, such as coffee and sugar, for consumer goods in what Bettelheim refers to as a 'disadvantageous international specialization' which pre-empts the full development of capitalist relations of production, and thus retards the process of industrialization in dominated social formations such as Brazil. In fact, the blocking of the productive forces in Brazil led to the preservation of precapitalist modes of production which still exist today in certain sectors of the economy.

Industrial growth, which took place by the end of the nineteenth century, was financed to a large extent by profits earned through the expansion of coffee exports, either through direct investment from the coffee planters or through state incentives which were financed through revenues generated from the coffee industry. The dependence of capitalist industry on precapitalist production constituted the basis of the contradictory unity of Brazilian production which is central to the theoretical premises of dependent development. In chapter four it was shown that the contradictory unity of production remained an important factor in development, as illustrated by the pastorization program in the underdeveloped western regions of Brazil.

Marxist state theory, however, 'incomplete' it is claimed to be, gives considerable insight into the development of the dependent state and into the logic of state intervention. The 'hothouse' analogy, offered by Marx in Chapter I to illustrate the role of the state in colonial societies, is particularly appropriate for the analysis of the dependent capitalist state. Like the hothouse, the dependent state serves to speed up the development process in underdeveloped societies, providing the groundwork for the development of monopoly capital.

State intervention does not result from the process of over-accumulation and crisis characteristic of advanced capitalism, but rather from a "scarcity of capital" or the incapacity of private capital to lay the basis for the expanded reproduction of peripheral capitalism.<sup>1</sup>

In Brazil the state pursued its objective in three phases. First during the Old Republic state intervention was directed towards the development of the general conditions of production, including the subsidization of immigration to provide a surplus labour force, as well as the financing of

infrastructural development. The second phase, initiated under Vargas, saw the creation of the corporatist state whose jurisdiction went beyond infrastructural development into the more dynamic fields of energy production and the production of basic metals such as iron and steel. In addition, the state attempted to incorporate the working class into the political system through the creation of state controlled union organizations. The current phase, since the military coup, has been marked by an expansion of the state productive sector into the capital goods industries, as well as an increase in the production of military hardware for export. During this phase the state has entered into joint ventures with foreign capital in order to expand its financial base, and has engaged in debt financing to meet its growth targets. Regulation of the working class took on a more repressive character as populist mechanisms of social control proved inadequate to suppress labour opposition. Throughout the entire period of capitalist development in Brazil, state intervention has been a crucial factor in offsetting the costs of production. It has therefore been a key force in offsetting the falling rate of profit which is endemic to capitalist production.

The role of the state in creating the social conditions for capital accumulation is much more overt in dependent capitalist formations than in the advanced capitalist countries where the indigenous ruling class is also the political responsibilities of the ruling class, ensuring that the state serves to facilitate the accumulation process, and that it effectively neutralizes the organized power of the subordinate classes. Quartim explains the reason for the political dominance of the military.

...because the hegemonic sector of the Brazilian economy (the international monopolist corporations) lives abroad and is only represented in Brazil by its local managers and straw bosses, the political dominance of the military is strengthened.<sup>2</sup>

Its strength has been enhanced because of its interdependence with the economic role of the state. The centralization of its command structure and its neutrality vis-à-vis the regions within Brazil make the military ideal for carrying out the rationalization and centralization of state decision-making which is a precondition of development. Furthermore, because of the weakness of bourgeois institutions such as parliament, political parties and unions, the military is the only viable institution to mediate the class struggle, filling a void which for the most part does not exist in the advanced capitalist countries.

What has happened ... is that an originally non-political institution--the army with its own very specific structure and its own social practice--has become political because it was the only institution on which the bourgeoisie can rely.<sup>3</sup>

Thus, while Mexico, like Brazil, is a dependent capitalist social formation the success of the Partido Revolucionario Institucional (PRI) in incorporating the popular sectors into the political system has enabled the armed forces to accept a supportive, rather than direct role in state decision-making.

Although it is necessary, as Munck suggests, to take into account the political matrix of state intervention in dependent social formations, it is important to remember that the dynamics behind dependent development cannot be divorced from the general laws of capitalist development. Thus the dependent state performs the same general function as any other capitalist state in that it is,

...only the organization with which bourgeois society provides itself in order to maintain the general external conditions of the capitalist mode of production against encroachments either by workers or by individual capitalists.<sup>4</sup>

Because modern Brazil, like other underdeveloped countries, has had to endure high levels of chronic unemployment, in other words, a large permanent reserve army of labour, the state can only maintain the general conditions of capitalist development through the kind of repression characteristic of the National Security Doctrine. That this form of state intervention has not been widely practised in the developed world, is not to suggest that the intensification of the present world economic crisis will not necessitate the development of such a mode of social control. "In the sphere of production the developed countries are more advanced; in the development of methods of open repression the underdeveloped world leads the way."<sup>5</sup> Thus the analysis of the role of the state in dependent social formations, potentially explains as much about the future of advanced capitalism as it does of the development of dependent capitalism.

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<sup>5</sup>Amy Bridges, "Nicos Poulantzas and the Marxist Theory of the State", in Politics and Society, Vol. 4, No. 2, Winter, 1974, p. 189.

<sup>6</sup>Ibid., p. 189.

<sup>7</sup>Jean Claude Girardin, "On the Marxist Theory of the State", in Politics and Society, Vol. 4, No. 2, Winter, 1974, p. 195.

<sup>8</sup>Karl Marx, "Marx on the History of His Opinions (Preface to a Contribution to the Critique of Political Economy)", in Robert C. Tucker (ed.), The Marx-Engels Reader, (N.Y.: W.W. Norton and Co. Inc., 1978), p. 4. Girardin also cites this passage maintaining that it "establishes the terrain on which Marxists can and must deal with the problem of the state." Op. Cit., p. 194.

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- <sup>35</sup>Ibid., p. 298.
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- <sup>37</sup>Ibid., p. 159.
- <sup>38</sup>Karl Marx, Capital Volume I, (New York: Vintage Books, 1977), p. 915.
- <sup>39</sup>Ibid., p. 919.
- <sup>40</sup>Ibid., p. 921.

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<sup>43</sup>Ibid., p. 124.

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<sup>45</sup>Hamza Alavi, "The State in Post-Colonial Societies: Pakistan and Bangladesh", in New Left Review, No. 74, July-August, 1972, p. 61.

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- <sup>55</sup> Hewlitt, Op. Cit., p. 40.
- <sup>56</sup> Munck, Op. Cit., p. 47. There appears to be an error in the dates given here. The steep rise in capital formation probably occurred after 1955, not 1965, as it appears in Munck's paper.

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## Chapter Four

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<sup>8</sup>Ibid., p. 107.

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<sup>16</sup>Quartim, Op. Cit., p. 90.

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<sup>34</sup>Quartim, Op. Cit., p. 67.

<sup>35</sup>Flynn, Op. Cit., p. 375.

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<sup>37</sup>Ibid., p. 94.

<sup>38</sup>The strategy of the Campos-Bulhões policy is outlined in Thomas E. Skidmore, "Politics and Economic Policy Making in Authoritarian Brazil, 1937-71", in Stepan, Op. Cit., pp. 18-28.

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<sup>40</sup> For example the São Paulo Philosophy Faculty was destroyed in a hail of gunfire and molotov cocktails which saw one student killed and several others wounded. Ibid., p. 130.

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<sup>50</sup> Flynn, Op. Cit., p. 478.

<sup>51</sup> Ibid., p. 476.

<sup>52</sup> Flynn, Op. Cit., p. 478.

<sup>53</sup> Douglas H. Graham, "Mexican and Brazilian Economic Development: Patterns, and Performance", in Sylvia Ann Hewlitt and Richard Weinert (eds.), Brazil and Mexico: Patterns in Late Development, (Philadelphia: Institute for the Study of Human Issues, 1982), p. 36.

<sup>54</sup> Munck, Op. Cit., p. 54.

<sup>55</sup> Ibid., p. 54.

<sup>56</sup> Flynn, Op. Cit., p. 479.

<sup>57</sup> Munck, Op. Cit., p. 55.

<sup>58</sup> Graham, Op. Cit., p. 29.

<sup>59</sup> Ibid., p. 19.

<sup>60</sup> Jose Alvaro Moisés, "Current Issues in the Labor Movement in Brazil", in Latin American Perspectives, vol. 6, No. 4, Fall, 1979, p. 61.

<sup>61</sup>Ibid., p. 64.

<sup>62</sup>Ibid., p. 63.

<sup>63</sup>For a more detailed breakdown of the election results, see Flynn, Op. Cit., pp. 483-4.

<sup>64</sup>Moisés, Op. Cit., p. 55.

<sup>65</sup>Ibid., p. 55.

<sup>66</sup>Ibid., p. 64.

<sup>67</sup>Jim Green, "Liberalization on Trial: The Workers' Movement", in Nacla Report on the Americas, Vol. 13, No. 3, May-June, 1979, p. 19.

<sup>68</sup>Ibid., p. 19.

<sup>69</sup>Ibid., pp. 20-21.

<sup>70</sup>Ibid., p. 24.

<sup>71</sup>International Currency Review, Vol. 14, No. 5, 1982, p. 102.

<sup>72</sup>Ibid., p. 104.

<sup>73</sup>Munck, Op. Cit., p. 55.

<sup>74</sup>Ibid., p. 55.

### Conclusion

<sup>1</sup>Munck, Op. Cit., p. 56.

<sup>2</sup>Quartim, Op. Cit., p. 95.

<sup>3</sup>Ibid., p. 95.

<sup>4</sup>Friedrich Engels, Herr Eugen Dühring's Revolution in Science (Anti-Dühring), New York: International Publishers, 1966), p. 304.

<sup>5</sup>Kay, Op. Cit., p. 187.

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