

STATE-SOCIETY CYCLES AND POLITICAL PACTS IN A NATIONAL-DEPENDENT SOCIETY Brazil

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Abstract: The history of independent Brazil may be divided into three major state-society cycles, and, after 1930, five political pacts or class coalitions can be identified. These pacts were nationalist; only in the 1990s did the Brazilian elites surrender to neoliberal hegemony. Yet since early in the twenty-first century they have been rediscovering the idea of the nation. The main claim of this essay is that Brazilian elites and Brazilian society are "national-dependent," that is, they are ambivalent and contradictory, requiring an oxymoron to define them. They are dependent because they often consider themselves "Europeans" and the mass of the people as inferior. But Brazil is big enough, and there are many common interests around its domestic market, to make the Brazilian nation less ambivalent. Today the country is seeking a synthesis between the last two political cycles—between social justice and economic development in the framework of democracy.

Countries that experienced capitalist revolutions in the eighteenth and nineteenth centuries developed within the framework of a national project. In the twentieth century, latecomer countries underwent a similar experience, but they had to face an obstacle from which their predecessors were spared: they had to face the modern industrial imperialism of the countries that had industrialized in the previous two centuries. Either a latecomer country asserts itself as a nation, builds a state, and defines a national development strategy, or it grows slowly and fails to attain the living standards of the rich countries. In this process of social construction the political elite that uses the state to drive economic development usually takes the initiative. This process requires legitimacy and a sense of purpose, which are often assured by the formation of a developmental class coalition or a development-oriented political pact able to implement an informal national development strategy. In this case, the legitimacy of the state and its leaders is still based on the support they enjoy in the civil society or in the nation but, more concretely, in this class coalition and in its ability to promote economic development. Such a developmental coalition includes the industrial business class, the public bureaucracy, workers, and some sectors of the preindustrial oligarchy, while the old oligarchy, capitalist rentiers and the financiers that manage their wealth, and the traditional upper-middle class, which also is partially rentier, all participate from the liberal class coalition.

I thank Sergio Costa for his valuable comments.

Latin American Research Review, Vol. 50, No. 2. © 2015 by the Latin American Studies Association.

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In this essay I present an interpretation of Brazilian society based on the assumptions I have just spelled out. In order to understand it, I distinguish three *state-society cycles* through which the society has passed since its independence in the early nineteenth century, and five *political pacts* or class coalitions since the 1930s. I start from a basic assumption—that Brazil's bourgeois, political, and intellectual elites are essentially ambivalent or contradictory regarding the national issue. Therefore, I argue that the idea that became dominant in Brazilian social sciences in the 1970s and persists to this day, according to which there is not, and has never been, a national bourgeoisie in Brazil, is false. Equally false is the opposite idea that Brazil's industrial bourgeoisie is as nationalist as the bourgeoisie of the rich countries were by the time of their development, and as are today the capitalist class and the professional class in the fast-growing Asian countries. The bourgeoisie will be "dependent" if its members see themselves as "European" and the mass of the people as inferior, and prefer to identify themselves with the elites of rich countries rather than with their own people; it will be "nationalist" (in economic terms) if they believe that the government should defend the interests of national labor, national knowledge, and national capital, and if they think that it should therefore listen to national citizens rather than accepting without criticism the policies and reforms proposed by the supposedly more competent individuals and institutions of rich countries. This does not mean that the nationalists are not interested in the ideas developed in rich countries. On the contrary, they seek to learn the technology of the more advanced countries and adapt their institutions to the local reality. But the elites in Latin American countries find it more difficult to identify themselves with their nation than do the Asian elites, probably because some of their members see themselves as European and reject the idea that the interests of their country conflict with those of the developed countries—something that is unthinkable to the Asian elites. Thus the dependency problem is more serious in Latin America than in Asia. But we should not therefore conclude that Latin American and Brazilian elites are always dependent. Given the inherent ambivalence of those elites, a more appropriate interpretation of Brazil is that it is a *national-dependent* society.

THE STATE AND TERRITORIAL INTEGRATION CYCLE

Brazil established the preconditions for its national and capitalist revolution in the nineteenth century when it achieved unification of its national territory and began the process of modernization through growing and exporting coffee, and through the employment of the necessary wage labor. In the classic discussion about who was responsible for building Brazil—the society or the state, the nation or the patrimonial elite that ruled the imperial state—there is little doubt that, in contrast to what happened in Britain, France, or the United States, the initial responsibility lay with the state, or, more precisely, with the politicians managing the state apparatus. In 1822 the small Brazilian population, spread across a huge territory, could not be considered a nation. But the state, a patrimonial state, was a reality. Despite all the reservations we may have against it, it was Portugal's great

legacy to Brazil. When D. João VI fled to Brazil in 1808, he brought this state with him—its laws, practices, and bureaucracy. It was this bureaucratic apparatus and this legal system that the Brazilian elite of that time used to adopt a constitution and, subsequently, to build a nation-state. It was an elite consisting of a patrimonial bureaucracy, landowners, and slave traders. It was therefore a heterogeneous elite with no idea of nation and state except for the patrimonial bureaucracy.

From this base arose the three major political cycles of development in the history of independent Brazil, cycles that marked the relationship between the society and the state. The first cycle involved the formation of the state and the integration of the territory under its command, and covered the Empire period; I call it the *state and territorial integration cycle*. After a transitional period that corresponded to the First Republic, we have the second cycle, the *nation and development cycle*, which ran from the 1930 Revolution to the mid-1970s and coincided with Brazil's capitalist revolution. Finally, as of the mid-1970s, when the capitalist revolution could be reasonably considered completed, Brazil was ripe for democracy. Although an authoritarian regime was in office and social inequality had reached new highs, the fight for democracy and for the decrease in inequality gained strength. I therefore call this new cycle the *democracy and social justice cycle*, the state-society cycle that was completed in the middle of the first decade of the twenty-first century. Since then, a synthesis may be occurring between the second and third political cycles, which might be characterized by a developmentalism that is not just economic but also social and environmental. But it is still too soon to evaluate this change.

In the 1950s, the nationalist intellectuals from the Higher Institute of Brazilian Studies (ISEB) taught that Brazilian history was divided into three periods: colonial, semicolonial (Empire and First Republic), and the period of the national and capitalist revolution.¹ I accepted this periodization, but I have always been bothered by the idea that all the major political players of the Empire had ultimately ruled over a "semicolonial" period. In fact, during that period there was neither nationalism nor the idea of a nation. Cultural subordination to Europe was strong. But at that time the imperial administration was able to adopt some policies considering the national interest, such as the 1844 Alves Branco tariff, the Lei de Terras, and the support of the initiative of an agrarian bourgeoisie to hire immigrant workers—a policy essential for the transition from a patriarchal capitalism to a capitalism wherein the idea and practice of productivity were already present, albeit imprecisely.

But besides this economic achievement, a great political enterprise got under way in imperial Brazil. It was the enterprise of integrating the Brazilian territory, of extending the law of the state to the country's whole population. Today, with an effective state, we are worried about the challenges of drug dealers trying to extend their jurisdiction over the slum areas. In the nineteenth century, the asser-

1. I refer to sociologist Alberto Guerreiro Ramos (1955), philosopher Álvaro Vieira Pinto, political scientist Hélio Jaguaribe (1953), economist Ignácio Rangel ([1953] 1957), historian Nelson Werneck Sodré, and philosopher Roland Corbisier.

tion of the power of the state and the law over the whole national territory was a more serious problem.² National integration simply did not exist. Communication and transportation difficulties were huge. Revolutions seeking provincial autonomy, slave rebellions, and the appearance of *jagunços* or warlords who dominated large regions were constant problems.³ The emperor's figure was important for the country to ensure a gradual increase in the state's capacity to regulate increasing sectors of society and to achieve territorial unity, but we should recognize the achievements of remarkable politicians who fought for the integration of the national territory, such as Bernardo de Vasconcelos and the Visconde do Uruguai. The major parliamentary debate was between the conservatives, who supported unitary government, and the liberals, who favored a federation.⁴ The terms "conservative" and "liberal" had little connection with their corresponding expressions in Europe. The conservatives were not trying to maintain order through the preservation of traditions, nor were the liberals seeking freedom at the expense of public order. What essentially characterized liberals was their defense of the federation, while the conservatives defended a unitary state. The conservatives eventually prevailed throughout most of the Second Empire, at a time when a centralized government was a necessary condition for the country's territorial integration.

Discussion about the state-society relationship raises the classic issue of priority. Generally the society, the nation, precedes the state. But this was not the case with Brazil. In the dialectical relationship between society and nation-state, the nation-state prevailed during the first cycle. This is the reason why its large patrimonial bureaucracy—which was so well studied by José Murilo de Carvalho (1980)—was politically in command of the country. Together with the landowners, this patrimonial bureaucracy was building the Brazilian state (the constitutional and legal system and the public administration that guarantees it) and at the same time integrating Brazil's nation-state. This elite was not nationalist or industrialization-oriented and did not adopt a hostile attitude to imperialism, which, as Barbosa Lima Sobrinho (1981) stressed, defines nationalism in the peripheral capitalist countries.

THE NATION AND DEVELOPMENT CYCLE

The state and territorial integration cycle was complete by the end of the Empire, and territorial unity and the extension of the power of the state over society were practically guaranteed. However, the Empire had failed by delaying a

2. On the formation of the state, see Oscar Oszlak (1997).

3. The warlords were armed and in certain regions (such as the Chapada Diamantina in Bahia) were referred to as *jagunços* (Morais [1963] 1997); this name was also given to the gangs of outlaws who operated in the *sertão* (arid outback), as well as to rebels and fanatics. Given the imprecision of the word, I refer here to "jagunços or warlords" in order to make it clear that I am not referring to armed gangs or to fanatical rebels.

4. Diogo Antônio Feijó belonged to the Liberal Party and, as regent, made a major contribution to the territorial integration of Brazil. Bernardo de Vasconcelos, who was originally a Liberal, broke with Padre Feijó and founded the Conservative Party.

solution to the fundamental issue of slavery. The problem was solved too late, and it is no accident that the Republic was proclaimed a year and a half later, in November 1889. But the Republic did not solve the existing problems; rather, it worsened them by prematurely adopting federalism, which opened the way for the reappearance of the *coronéis* (traditional political chiefs) and the *jagunços* (regional warlords).⁵ At the turn of the twentieth century it was time for the state to give decisive support to the Brazilian industry that was beginning to operate in São Paulo. It was at this moment—when it was necessary to strengthen the state in order to start the national and industrial revolution—that the state was decentralized and became weaker than it was before.

But it was also the moment when the nation and development cycle began at the level of society. Now it was within society and not within the state that the first important figures of Brazilian nationalism appeared: Silvio Romero, Manoel Bonfim, Euclides da Cunha, Alberto Torres, Olavo Bilac, Monteiro Lobato, and Roberto Simonsen. At the society level the cycle reached a classic moment in the works of Francisco J. Oliveira Vianna Francisco J. ([1920] 1987, [1923] 1956), Gilberto Freyre, Sérgio Buarque de Holanda, and Azevedo Amaral; and it attained its complete definition in the ideas of the great ISEB intellectuals already mentioned and in the work of Barbosa Lima Sobrinho and Celso Furtado.⁶

Shifting from the society level to the state level, we must take into account a fundamental change. Contrary to what happened during the independence period, now it was the society that preceded the state. Whereas at the society level nationalist ideas had already been gaining ground since the beginning of the century, the first development-oriented political pact appeared only with the 1930 Revolution: the national-popular pact (1930–1959) was an authoritarian and industrializing arrangement that might also be called “national” because it included the bourgeoisie committed to industrialization, and “popular” because it included the masses. Its chief political player was Getúlio Vargas, who understood both the severity of the global crisis that had begun with the New York stock market crash in 1929 and the window of opportunity that was opening for Brazil. He therefore broke the alliance he had made with the liberals (who represented the coffee oligarchy and the foreign trade interests) and joined the nationalists, who were increasingly active at the political level, particularly in the *tenentismo* movement.⁷ At the same time, as a populist political leader he sought support among urban masses for the first time in the history of the country. Vargas succeeded in bringing together, in an informal pact, different classes and social sectors: the emerg-

5. We should not mistake *coronéis* for “warlords” or *jagunços*. The *coronéis* were local authoritarian political chiefs, usually landowners, who rose to the rank of colonel in the National Guard, a state police force that was in charge before the army took over this function. The classic work on the “politics of *coronéis*” is by Victor Nunes Leal ([1949] 1975). On the *jagunços* or warlords, see note 3.

6. ISEB was an agency of the Ministry of Education between 1955 and 1964; the group of intellectuals who formed it had been active since the early 1950s and between 1952 and 1955 published five issues of *Cadernos do Nosso Tempo*. On ISEB, see Toledo (2005).

7. *Tenentismo* consisted of a number of political movements led by lieutenants of the Brazilian army. It is usually considered the first systematic nationalist and modernizing manifestation in Brazil. See Virgínio de Santa Rosa ([1933] 1976) and Maria Cecília Forjaz (1978).

ing industrial bourgeoisie, the equally emerging modern public bureaucracy, the urban working class, nationalist and left-wing intellectuals, and sectors from the old oligarchy, namely, the “import substitution” sectors (which did not produce for export), such as the cattle breeders (of whom Vargas was one) from the South and the Northeast. In the opposition were the agricultural-exporting oligarchy and the foreign interests that gained from exporting manufactured goods with high value added per capita and importing commodities with low value added per capita. For that reason, they defended economic liberalism and declared the “natural vocation” of Brazil toward agriculture.

The 1930 national-popular pact benefited from the Great Depression of the 1930s, which triggered the industrial revolution. The great reduction in coffee prices led to a strong depreciation of the local currency, which immediately stimulated industry. And it continued to do so until 1992 because the Brazilian government maintained control over capital inflows and the exchange rate. Gradually, from 1930 on, a national development strategy began to unfold, one that enjoyed extensive support in society, except from the old commodity-exporting oligarchy and the traditional middle class that worked for this oligarchy. It was a state-led industrialization, similar to the late industrial revolutions in Japan, Germany, Austria, and the Scandinavian countries.⁸ For the first time in its history the government successfully promoted an industrialization-oriented policy, and Brazil achieved high rates of growth.

Brazil was undergoing its national and industrial revolution—that is, its capitalist revolution—and building its nation-state. The regime was authoritarian, as were, by the way, the political regimes of all other countries at the time that they experienced their corresponding capitalist revolutions.⁹ In 1945, with the end of World War II, a coup d'état put an end to the first Vargas administration; it had lasted fifteen years and had imposed authoritarian government in the last seven (the *Estado Novo*). In the first two years after the war, the government of General Eurico Gaspar Dutra tried to liberalize trade and the exchange rate, but the attempt was disastrous and the government was forced to return to Vargas's national-developmental strategy—a state-led strategy that was giving rise to a powerful industrial bourgeoisie. In 1950 Vargas was elected president with a huge majority, but in 1954 unfounded accusations of corruption made by the liberal party, the National Democratic Union, led to another coup and to Vargas's suicide. But a year later, with the election of President Juscelino Kubitschek, who favored accelerated industrialization, the 1930 national-popular pact and its corresponding strategy were restored. However, the economic imbalance left by Kubitschek, the 1959 Cuban Revolution (which strongly radicalized all of Latin America), and

8. The classic work on the subject is of Alexander Gerschenkron (1962). As for Japan, which Gerschenkron does not analyze, the industrial revolution occurred between 1880 and 1910, and was entirely state-led. The Japanese, however, decided to imitate foreign technology, not only as regards engineering but also institutions. This is why, between 1908 and 1910, they promoted extensive privatization.

9. Contrary to the entrenched belief, the United States was not an exception to this rule. It achieved universal suffrage (that and the assertion of liberties or civil rights are the minimal conditions for democracy) only at the end of the nineteenth century, long after its industrial revolution had been completed.

the election in 1960 of President Jânio Quadros, a right-wing populist, followed by his resignation six months later in 1961, resulted in a serious economic and political crisis. This crisis marked the end of the 1930 national-popular pact and led to the 1964 authoritarian-modernizing coup d'état.

With the 1964 coup, whose origin lay in the escalation of the Cold War in Latin America and in the political radicalization generated by the 1959 Cuban Revolution,¹⁰ the national-popular pact reached its end. The industrial entrepreneurs (the national bourgeoisie committed to national interests) and the military, who had always been the mainstay of Brazilian developmentalism, feared the communist threat and joined the commercial and financial bourgeoisie, the traditional middle class, in establishing a military regime in Brazil with the support of the US government. A new political pact—the 1964 authoritarian-modernizing pact—was then formed, which, contrary to what was thought at that time, would ensure the continuation of the national-developmental strategy of the previous period, after three years of necessary fiscal and monetary adjustments. This political pact comprised the same elites of the previous pact—namely, the national bourgeoisie and the public bureaucracy (in which the military had become dominant)—but it excluded workers and left-wing intellectuals, while foreign interests, which had been significant at the time of the coup, later lost a good part of their influence. The new regime adopted a developmental strategy where the state and the private sector performed complementary roles, gave clear priority to domestic companies over foreign ones, and kept the exchange-rate competitive, adopting heterodox forms of neutralizing the Dutch disease.¹¹ Developed countries continued to support the Brazilian government because the country remained open to the investments of multinational corporations, and because during the Cold War the United States was not particularly engaged in determining the model of social and economic organization of the developing countries, provided that they were not associated with the Soviet Union.¹² The pact was headed by the public techno-bureaucracy and enjoyed the active participation of the industrial bourgeoisie, which should be particularly involved in the capital goods industry, whereas the state continued to invest in infrastructure and in basic commodities industries—in the case of the petrochemical industry, in association with foreign capital.¹³

10. On the new historical facts that determined the military coup and the end of Vargas's national-developmental pact, see Bresser-Pereira (2003, chap. 4). The chapter cited has been included in the book since its first edition was published in 1968.

11. Neutralization of the Dutch disease was achieved correctly by imposing a tax on the exports of commodities, but the tax was disguised (either by the adoption of multiple exchange rates or by imposing a tax on imports of manufactured goods and a subsidy on their exports, while the commodities received the nominal exchange rate), a relative disguise that came to be called *confisco cambial* (exchange rate seizure).

12. The United States became concerned with this issue only in the early 1980s, in the context of the neoliberal ideas that were then dominant. With the Baker Plan of 1985, named after James Baker, the US secretary of treasury in the Reagan administration, the policy of market-oriented institutional reforms was formally drafted, and the World Bank charged with their implementation, while the IMF remained responsible for macroeconomic or structural adjustment.

13. Peter Evans (1979) has analyzed the "triple alliance" involving state, national capital, and foreign capital, which in the case of the petrochemical industry was a formal alliance sanctioned by the state.

Table 1 Society and state political cycles and political pacts

Society and state cycles	Political pacts
State and territorial integration	–
Nation and development	1930: national-popular 1964: authoritarian-modernizing
Democracy and social justice	1977: democratic-popular 1991: liberal-dependent 2005: democratic-popular?

In both periods of the nation and development cycle—those of the 1930 national-popular pact and the 1964 authoritarian-modernizing pact—national developmentalism was the common national development strategy. Both pacts faced the opposition of the nonindustrial bourgeoisie (initially a mercantile and later a rentier bourgeoisie) associated with professional financiers and with foreign interests. But this opposition was not an obstacle to some cooperation, as the financing of the first great Brazilian steel mill in Volta Redonda, during the war, or the minority participation of foreign corporations of the petrochemical industry in the 1970s. In the 1980s, the collapse of the 1964 authoritarian-modernizing pact involved the active participation of the popular classes, and the class coalition that replaced it—the 1977 democratic-popular pact—was democratic and developmental. Another pact followed, the 1991 liberal-dependent pact. Since around 2006, there have been indications that a new developmental pact is being built.

Table 1 presents the periodization I am adopting: like any periodization, it has problems, but I hope that it will make it easy to understand the whole picture.

THE DEMOCRACY AND SOCIAL JUSTICE CYCLE

The democracy and social justice cycle was conceived in the early 1960s, when the fight for land reform and for other basic reforms mobilized significant sectors of society, including rural workers, who had so far been excluded from political life. The 1964 military coup interrupted the process, but the reaction against the exclusionary nature of the new authoritarian-modernizing pact established the basis on which the ideas of democracy and inequality reduction were to prevail in Brazil in the 1970s and 1980s. The “economic miracle” of 1968–1973,¹⁴ which characterized the end of the nation and development cycle, created the impression among the left and intellectuals that economic growth was now guaranteed, and strengthened the idea that the major challenge was no longer economic development (which was being promoted by the military) but the transition to democracy and a decrease in huge social inequalities.

It is in this context that a new state-society cycle emerged, the democracy and social justice cycle. It emerged from civil society organized under the form of popular social movements, the Catholic base communities, the new unionism,

14. Between 1968 and 1973 the GDP growth rates were nearly 10 percent per annum.

and also from left-wing intellectuals. The background of the new cycle was the 1964 coup and the subsequent economic miracle. It assumed that economic development would continue, but unequally, and criticized the concentration of income in the middle and upper classes caused by the economic policy of the military regime.

The new cycle, which, differently from the former ones, originated in society, not in the state, gathered political momentum in 1977 with the beginning of the crisis of the authoritarian regime. The crisis broke as a reaction to the 1977 “April package,” a set of violent authoritarian measures that President Ernesto Geisel adopted in that month, after having maintained, during the two previous years, the *distensão* (relaxation) or democratic “opening.” The business class received the authoritarian measures negatively, and from then on, for the first time since 1964, the bourgeoisie withheld its broad support from the government and gradually joined the democratic forces led by the MDB (Movimento Democrático Brasileira). With this new historical fact, the democracy and social justice cycle, and within it the 1977 democratic-popular pact, gradually gathered strength. This comprehensive political pact for democracy and reduction in economic inequality was empowered by the economic crisis (the major crisis of foreign debt and high inertial inflation) that broke in 1980. Democracy was achieved at the end of 1984 after an extensive popular mobilization, the “Diretas Já” (Direct Elections Now) campaign. However, at the beginning of 1987 the pact collapsed because it failed to deal with the deep economic crisis.¹⁵ The most important moment of the democracy and social justice cycle was the enactment of the 1988 Constitution, a democratic, social, and participatory constitution that was received with criticism by the country’s conservative elites, who judged it “utopian” and “unenforceable.” Nevertheless, its most significant goal—the establishment of a universal health care system—became a reality with the Sistema Único de Saúde.

When this cycle began in the mid-1970s, the country was marked by huge inequality; thirty years later, despite the neoliberalism that prevailed around the world and was reflected in Brazil, a welfare state was implemented in the country, and inequality, although still high, was significantly reduced.¹⁶ But the country of “selective modernization,” in the words of Jessé de Souza (2000, 254, 266), did not disappear. Brazil modernized, adopted “the dominant values code—the code of Western moral individualism,” but remained an unequal society where the poor were second-class citizens. Change would start only in the new century, when the poor, benefiting from the increase in the minimum wage and from a wide range of public social services, took on a proactive political role so that in the presidential elections of both 2006 and 2010 income and class divisions were decisive issues.¹⁷

15. See Bresser-Pereira (1978).

16. Spending nearly a quarter of GDP on social services—education, health care, culture, social security and welfare—Brazil, according to this criterion, currently approximates the European countries defined as “welfare states.”

17. It was only since the second election of President Lula in 2006 that the poor voted for him and for President Dilma Rousseff in the 2010 election, while the rich voted for the main opposition candidate. See André Singer (2012).

ELITES AND DEPENDENCY

In the late 1960s, as the democracy and social justice cycle was beginning, a critique of the national-developmental or national-bourgeois interpretation of economic development gained currency, namely “dependency theory” or rather the dependency interpretation. The national-bourgeois interpretation prescribed that developing countries should consider a socialist revolution only after conducting their national and industrial, or capitalist, revolution. The dependency interpretation rejected this prescription. From its Marxist-inspired perspective, it argued that developing countries’ bourgeoisies would be intrinsically dependent; they would necessarily be subordinate to the major imperial powers or the North. Their societies were not dual (that is, modern and semifeudal or traditional) but dependent-capitalist, and so developing countries could not rely on a national bourgeoisie to carry out a capitalist revolution. This interpretation was apparently confirmed by the military coups in Brazil in 1964, in Argentina in 1967, and in Uruguay in 1968 and gained currency in Santiago de Chile, where between 1964 and 1973 left-wing Latin American political exiles gathered.

Dependency intellectuals soon divided into two groups: a radical one (which favored an “imperialist overexploitation” interpretation) and a moderate one (which promoted an “associated dependency” interpretation). Both groups rejected the possibility of a national bourgeoisie and a national revolution, but while the former advocated a socialist revolution, the latter assumed it was more advisable for Latin American countries to become associated with the major imperial powers of the North.¹⁸

The dependency interpretation was correct in criticizing inequality and authoritarianism, but it was seriously mistaken regarding nationalism and the bourgeois revolution. Between 1930 and 1980 Brazil had a national development strategy, which was possible only because it had a reasonably national bourgeoisie. Both the imperialist overexploitation and the associated dependency theories simplified Brazil’s complex social reality. There was here an element of resentment and an attempt to identify those who were “internally” responsible for the 1964 coup—a resentment that became especially clear in an essay by Caio Prado Jr. (1966) that blamed the Brazilian Communist Party (PCB) for the defeat of the left.¹⁹

Yet these new ideas contained a grain of truth that explains their success and in particular explains why the associated dependency interpretation prevailed intellectually in the Brazil in the 1970s and 1980s. Prado clearly did not understand that Latin America’s business and intellectual elites were ambivalent and contradictory. It is true that elites of developing countries, particularly those of Latin America, suffer to varying degrees from cultural and political alienation. This alienation arises from an objective fact (the higher degree of development

18. The two founding texts of the dependency interpretation are by André Gunder Frank ([1966] 1973) and by Fernando Henrique Cardoso and Enzo Faletto (1970); the former text elaborates the overexploitation interpretation, the latter the associated dependency interpretation. My critique of the dependency interpretation appears in Bresser-Pereira (2011).

19. As a matter of fact, the PCB had already adhered to the bourgeois revolution theory in its 1958 convention, a theory clearly supported by ISEB’s nationalist intellectuals since the early 1950s.

of the hegemonic country) and a set of imaginary facts—the perverse desire to reproduce consumption patterns from abroad; the belief that, in order to grow, a country such as Brazil needs rich countries' capital, and so forth.²⁰ But particularly in large countries such as Brazil, many factors make such elites national: a past of struggle, the power of cultural identity, economic interests around the internal market, and the existence of a state able to protect such interests. In Brazil, these were powerful forces contributing to an economic and patriotic nationalism. After all, Brazil may be the country of Mário de Andrade's Macunaíma, but it is also the country of Monteiro Lobato's Emília.²¹

The Brazilian elites, particularly the industrial bourgeoisie, are not just dependent: they are also, and contradictorily or ambivalently, partly dependent, partly nationalist—something which once said becomes obvious but which dependency theorists did not acknowledge or discuss. For them they were just dependent—deplorably for the super-exploration interpretation, and naturally for the associated interpretation—something that Brazilians should learn to live with. The elites' basic ambivalence regarding the national issue is the reason why Brazilian society is not merely dependent but national-dependent. It lives this permanent contradiction, which can be expressed only by an oxymoron. Sometimes its dependency increases, as in 1964 out of fear of communism, or as in the 1990s when the neoliberal ideological hegemony was absolute and developmentalism, after the democratic transition, had become a populist sentiment. At other times, however, it is nationalist, because the promotion of its interests depends on the country's development. The more dependent and the less nationalist the national elites are, the closer the country will come to semistagnation. The less dependent and the more nationalist they are, the greater will be the probability of real development.

THE COLLAPSE OF THE DEMOCRATIC-POPULAR PACT

During the process of democratic transition, economic development was interrupted in Brazil and in Latin America generally by a major and long-standing financial crisis, the foreign debt and high inertial inflation crisis, which began in 1980. At first, it was essentially a balance-of-payments crisis resulting from excessive capital inflows and from the corresponding exchange rate overvaluation. Contrary to popular belief, the exhaustion of the import substitution model was not one of the causes of the crisis. As Maria da Conceição Tavares demonstrated in her classic 1963 article, this model had become exhausted in the late 1950s.²²

20. The need is "imaginary" because, as I have demonstrated elsewhere, the growth with foreign savings policy causes an increase in consumption rather than in investment; and it is ideological because the main interest of the rich countries is to persuade developing countries that they need their capital in order to grow.

21. Macunaíma is the "hero without character" of Mario de Andrade; Emília is the active and resourceful doll-girl of the juvenile books of Monteiro Lobato.

22. There is import substitution industrialization when there is *desarrollo hacia adentro* (domestic market-oriented development), i.e., reduction of the import coefficient (imports/GDP). In the mid-1960s this coefficient reached a low and after that increased consistently.

Reflecting this fact, since the late 1960s Brazil has successfully pursued a policy of exporting manufactured goods, which in the 1960s represented 6 percent of total exports, jumping to 65 percent in 1985.²³

In the second part of the 1970s, the military and nationalist businessmen, along with their liberal critics, adopted foreign indebtedness as a growth strategy, ignoring or disregarding three facts. First, Brazil should achieve a current, small account surplus (which made foreign indebtedness unnecessary) by neutralizing its moderate Dutch disease²⁴ or the curse of natural resources (the chronic overvaluation of the exchange rate caused by Ricardian rents stemming from the exploitation of abundant and cheap natural resources).²⁵ Second, foreign savings are not simply added to domestic savings but mostly replace domestic savings and lead to increased consumption, to the detriment of investment. Third, by opening its domestic market to direct investment, Brazil was offering a precious asset to direct foreign investment without the possibility of gaining access, in return, to the domestic markets of the rich countries for lack of the necessary multinational corporations. The growth of the 1970s, with high current account deficits financed by foreign indebtedness, resulted in the huge 1980s crisis of foreign debt—a major financial crisis which, coupled with high inertial inflation, would paralyze fast economic development in Brazil.

The financial crisis of the 1980s coupled with high inertial inflation hastened the demise of the military regime. However, the democratic transition produced euphoria in Brazilian society that soon evolved into economic populism. New hope materialized in the price stabilization achieved by the Cruzado Plan of 1986, but it was replaced by profound popular frustration when this plan collapsed at the end of that year. This collapse was not merely an economic disaster that reignited the financial crisis; it was also a political disaster because it led to the collapse of the 1977 democratic-popular pact. The theoretically ingenious Cruzado Plan was implemented in the context of fiscal and exchange rate irresponsibility, which was then prevailing in the country. The economic constraints imposed by the unbalanced public budget and the appreciated exchange rate, which was resulting in high current account deficits, were ignored. In 1987 economic populism was so extreme that when, as the new finance minister, I decided that it was necessary to promote fiscal adjustment, I was almost expelled from the Party of the Brazilian Democratic Movement (PMDB).²⁶ As finance minister I contributed to a minimal reorganization of the economy, devalued the exchange rate, and devised

23. Source: Ipeadata, <http://www.ipeadata.gov.br/>.

24. I call it “moderate” Dutch disease because the Ricardian rents (and the consequent permanent overvaluation of the national currency) originating from coffee, soybeans, or iron ore exports are substantially smaller than those originating from oil export countries, particularly where the cost of drilling oil is small.

25. A country faces the Dutch disease when it has two equilibrium exchange rates: the “current equilibrium,” which balances the current account intertemporally, and the “industrial equilibrium,” more depreciated, which makes business enterprises using state-of-the-art technology competitive. To neutralize the Dutch disease means to move the level of the exchange rate from the current to the industrial equilibrium, which necessarily will portray a current account surplus.

26. The intervention of Representative Ulysses Guimarães, president of the PMDB, was necessary to prevent my expulsion from this political party.

a model for the solution of the foreign debt crisis, which would later become the Brady Plan.²⁷ But this plan, the Plano Bresser, did not succeed in controlling inflation. At the end of 1987, lacking the political support needed to implement the necessary fiscal adjustment, I resigned.

THE LOSS OF THE IDEA OF NATION

In the period of substantial growth in the Brazilian economy between 1930 and 1980, liberals and later neoliberals (who in the past, significantly, were also called “free traders”) were excluded from the political power system as expressed in the political pacts. Yet in 1991, after a four-year power vacuum caused by the collapse of the Plano Cruzado and the subsequent failure of the 1977 democratic-popular pact, Brazil surrendered to the North and adopted neoliberal reforms. This change is usually dated to the beginning of the administration of Fernando Collor de Mello, but in fact it occurred after the failure of the Collor Plan when a second group of ministers assumed the administration of the country.²⁸ A new dominant political pact—the 1991 liberal-dependent pact, which adopted the economic reforms and macroeconomic policies prescribed by the Washington Consensus—came into being. As a result, the country returned for some time to the semicolonial condition it had been in before 1930. This can be explained by the loss of the idea of the nation at a time of severe financial crisis (the foreign-debt crisis) coupled with high inflation, which broke out in 1980, in conjunction with the associated dependency interpretation and the ideological neoliberal hegemony that materialized in the 1990s.

After a major financial crisis in the 1980s, in the next decade civil society and the nation—the two basic forms through which modern societies get organized politically—experienced deep change. Civil society, which was committed to democracy and the reduction of inequality in the 1970s and 1980s, lost focus in the 1990s. As Sergio Costa (2002, 58–59) observed, sectors of civil society, particularly the ones organizing blacks, women, neighborhoods, and so on, actively participated from the actions of the new democratic state, “but the participation ceased to imply the abdication of the identity of civil society actors”; yet it was possible to see in other sectors “the acceptance of the neoliberal critique directed not so much to the governments but to the interventionist state and to its capacity of acting in favor of economic and social development.” As to the nation, the dilution of nationalism caused by the military regime and the critique of the associated dependency interpretation, the severity of the debt and high inflation crisis of the 1980s, and the new hegemony of the neoliberal ideology together paralyzed Brazil’s national revolution, and Brazil lost its concept of the nation. The entrepre-

27. The Brady Plan of March 1989 was the plan of Nicholas Brady, US secretary of the treasury, and solved the foreign debt crisis. It was based on two ideas that I had presented at the annual meeting of the IMF and the World Bank in September 1987.

28. In President Collor’s second ministry, the finance minister would be Marcílio Marques Moreira. Under his administration Brazil signed a letter of intent to the IMF undertaking to open its capital account. Combined with the ongoing trade liberalization, this meant that the country lost control over its exchange rate, control that had been carefully preserved since 1930.

neurs endowed with national spirit became a minority, while rent-seeking capitalists interested in maximizing their returns from investments in government debt, and the financial sector that worked for them, took advantage of the country's macroeconomic instability to ensure the maintenance of a policy of high domestic interest rates, an overvalued exchange rate, and high foreign indebtedness. In modern economies—characterized by knowledge capitalism or professionals' capitalism—the power of the financial sector reflects its quasi-public role of creating money and its knowledge of macroeconomic policy, a knowledge that derives from its need to hire a large number of economists to manage its own accounts and the wealth of its customers. Macroeconomic policy and knowledge of finance theory became strategic: those who had or appeared to have this knowledge enjoyed more power. In the Brazilian case, such power was enhanced by chronic macroeconomic instability.

A NEW DEVELOPMENTALISM?

The moment when Brazil lost its national autonomy under the Collor administration coincided with the collapse of the Soviet Union and the hegemony of both the United States and neoliberal ideas. However, after the early 2000s the failure of neoliberal policies became increasingly evident, at first in the developing countries and later at the center of the world economy; and the ideological setting began to change. Certain reforms, such as the privatization of nonmonopolistic companies, and economic policies such as the restoration of the public finances, were necessary or advisable. But they were accompanied by mistaken policies, such as financial opening, indiscriminate liberalization and deregulation, growth with current account deficits financed by foreign indebtedness, and high interest rates and exchange rate appreciation in order to control inflation. At the same time there was no interest in neutralizing the Dutch disease or the tendency of the exchange rate to cyclical overvaluation. Consequently, these policies caused a low level of development and a re-primarization or deindustrialization of the economy. And so we increasingly started to see members of the Brazilian elite becoming aware, on one hand, that a strong and autonomous nation-state was still important in the context of the worldwide competition that is globalization and, on the other hand, that the orthodox reform policies were promoting neither growth nor financial stability; they guaranteed only low inflation. As a result, there was scope for thinking about a national development strategy, a new developmentalism.

From 1999 on, nationalist political leaders were being elected throughout Latin America. In Brazil this occurred with the election of Luiz Inácio Lula da Silva of the Workers' Party (PT). The Lula administration of 2003–2010 puzzled conservative elites, frustrated the most radical on the left, was hailed as a return to the idea of the nation by center-left nationalists, and dazzled the great mass of poor workers. However, the first two years of the Lula administration were marked by an economic crisis and a political crisis. This latter crisis—the *mensalão* (vote-buying scheme)—almost cost the president his position. But Lula then displayed political leadership, appealed to the people for support, and was reelected with a huge

majority in 2006. He ended his second term, in 2010, with an unprecedented level of popularity and the PT candidate Dilma Rousseff replaced him as president of the Republic.

Lula took on the presidency in January 2003, when the 2002 balance-of-payments crisis was at its peak, the rollover of foreign debt was blocked by creditors, and the exchange rate approached R\$4.00 per US dollar. While the PT was a left-wing party that criticized social democracy and defined itself as socialist, it had suggested radical or even irresponsible policies. Knowing that this had been one of the causes of its electoral defeat in 1998, it changed the tone and content of its proposals in its manifesto in the 2002 electoral campaign, the *Carta aos Brasileiros* (Letter to the Brazilian People). But this did not prevent the financial markets and the local business elites from distrusting the PT's presidential candidate.

During the first two years of the new PT administration, the Brazilian economy experienced a strong economic adjustment. Faced with the crisis and distrust for which he was partly responsible, the new president decided not to take any chances. The essential thing was for him to regain the confidence of the financial markets and, to this end, he did everything the market asked of him: he raised the interest rate and intensified fiscal adjustment, even though the real interest rate was already very high and adjustment had already been under way since 1999. The recession of 2003 was a reflection of this policy. It is true that inflation had also fallen, but this was due less to the recession and more to exchange rate appreciation. Faced with this mistaken macroeconomic policy, the center-right opposition—now represented by the PSDB (Brazilian Social Democracy Party), which became associated with the conservative elites, particularly the financial elites, and with orthodox economists—concluded that “nothing” had changed in the new government.²⁹

Actually, change of a developmental nature on the supply side began in the third year of the Lula administration, by the adoption of a firm policy of support for manufacturing industries through several industrial policy measures, including the return of preference for Brazilian enterprises in the state's purchases, and through increased support of BNDES (the Brazilian Economic and Social Development Bank) for national enterprises. On the income side, change was expressed by a distributive policy based primarily on a major increase in the minimum wage (which increased by 54 per cent in real terms over four years) and on the expansion of the Bolsa Família (family allowance). This policy, along with an increase in credit to households, for some time assured domestic demand for the manufacturing industry, which had been losing its foreign markets due to the incapacity of the government to check the continuing appreciation of the *real*. And what is more important, it effectively contributed to the reduction of inequality, as the fall of the Gini coefficient clearly demonstrates. This coefficient, which was around 60 percent in the 1990s and 58 percent in 2003, fell to 54 percent in 2009.

29. PSDB was founded in 1988 by center-left politicians. Yet in the 1994 election, it associated itself with the center-right PFL, beginning its transition to the right, which was completed when the PT won the presidential elections and, following a classic practice of social-democratic parties, moved to the center-left.

The share of wages in GDP, which was just 31 percent in 2004, rose to 35 percent in 2009. And the consumption of poor households increased significantly, which led to the rise of the C class (a marketing and political surveys concept corresponding to the upper lower class) or to the mass consumption objective, which was central among the PT's objectives in the 2002 presidential campaign.

Under the Lula administration social coefficients (of life expectancy, infant mortality, reduction of illiteracy, etc.) continued to improve, but it is necessary to remember that this happened after the 1988 Constitution was enacted, which established the right to universal health care and increased the minimum proportion of state expenditures destined for education. In consequence, public social expenditures doubled (from 12 percent to almost 24 percent of GDP) in twenty years. This also contributed to improvement of the standard of living of the poor and reduction of inequality. Finally, the labor market underwent a major change in the first decade after 2000. In this decade Brazil achieved the "Lewis turning point"—the moment in which the "unlimited supply of labor" defined by Arthur Lewis in his well-known 1954 article is relatively exhausted and wages begin to rise at approximately at the same rate as the increase of productivity, rather than below that rate.

All this improved the distribution of income in Brazil and reaffirmed the social agreement defined in the 1977 popular-democratic pact. Since the 1985 transition to democracy, Brazil has clearly attempted to establish a welfare state despite its relatively low per capita income. Yet the macroeconomic policies adopted during the Lula administration contributed only limitedly to this goal. The exchange rate, which had sharply devalued in the 2002 currency crisis, appreciated steadily because (1) neutralization of the Dutch disease had ceased with the trade and financial liberalization of 1990–1991; (2) the increase in the prices of commodities exported by Brazil aggravated this structural market failure; and (3) capital inflows grew due to the high interest rates of Brazilian treasury bonds. The exchange rate depreciated during the global financial crisis of 2008 but soon appreciated again. The real interest rate, which was around 9 percent at the beginning of the Lula administration (a level that neoliberal intellectuals used to say corresponds to the "natural" rate of interest in Brazil) fell to around 5 percent in real terms by the end of the Lula administration, without runaway inflation. Yet as had happened with the Fernando Henrique Cardoso administration, the Lula administration did not avoid what I call "exchange rate populism": the appreciation of the exchange rate to control inflation and artificially increase real wages. The exchange rate, which was highly depreciated in the first month of this administration (January 2003, R\$6.00 per US dollar in December 2010 prices), appreciated considerably in its last month (December 2010, R\$1.65 per dollar). The difference between the two administrations was that while exchange rate populism caused a financial crisis in 1999, it did not do so in 2011 because the huge increase in commodity prices in the 2000s allowed Brazil to build large reserves of hard currency. However, it caused a difficult time for Lula's successor, Dilma Rousseff.

The Rousseff administration that began in January 2011 soon demonstrated a clearer developmental approach than had the Lula administration. This was demonstrated on the supply side, where more industrial policies were imple-

mented. Monetary policy also changed, primarily after the Central Bank's decision in September 2011 to reduce the interest rate. This decision surprised the financial markets, which immediately accused the bank of being "populist" and inflationary; but it soon became clear that the policy was a sensible response to the worsening of the international economic situation caused by the euro crisis and the weak recovery of the US economy. This change of policy by the Central Bank was possible because, for the first time in many years, its board did not include a single economist associated with the financial sector. At the beginning of 2012 President Rousseff decided to go further: she pressured the private banks to reduce their margins by asking the public banks to reduce their own margins. Definitely, Brazil in 2012 was very far from where it had been in the 1990s, when a political coalition of rentier capitalists and finance professionals was in power. Yet the highly appreciated exchange rate, which she inherited from her predecessor, represented a major burden. In the first two and a half years of her administration, the exchange rate, which, to be competitive, should be floating around the industry equilibrium of R\$2.75 per dollar (Marconi 2012), was floating around R\$2.00 per dollar. In this way, the Brazilian manufacturing industry was relatively disconnected from domestic and foreign markets, and deindustrialization grew dramatically, while growth rates were dismally low.

CONCLUSION

Given these changes in economic policy, is it legitimate to refer to a new developmental political pact in Brazil? A developing country ceases to be semicolonial and becomes developmental only when the country achieves high growth rates that guarantee catching up. In the 1980s the Brazilian economy stagnated, and between 1990 and 2005 it grew at a per capita rate of around 2 percent. This rate did not guarantee catching up and was too low to qualify Brazil as a developmental state. Between 2006 and 2010 Brazil might have so qualified as it grew at a rate close to 4 percent per annum; but in 2011 its growth rate fell to 2.7 percent and in 2012 to 1 percent. Indeed, even a rate of 4 percent per annum is not sustainable given the long-standing levels of the interest rate and the exchange rate in the Brazilian economy. This growth rate was possible, despite the low exchange rate and the high interest rate, because as of 2004, the prices of commodities exported by Brazil had greatly increased, and because Lula's distributive policy, by expanding the domestic market, offset the industrial enterprises' loss of foreign markets. But this kind of compensation is necessarily temporary. Soon, as started to happen as early as 2010, the overvalued exchange rate, besides reducing manufactured exports, stimulated imports, which stole domestic market share from domestic enterprises. Commodity prices, in turn, ceased to grow, and the recession continued in the rich countries. It is not surprising, therefore, that Brazil's current growth rate is insufficient and substantially lower than the rates of the fast-growing Asian countries, including the other three BRICs, namely, China, India, and Russia.

The discourse of former president Lula was distributivist rather than developmental. The PT never accepted neoliberal ideas but was affected by the anti-

nationalism of the associated dependency interpretation. Even if it included pro-development intellectuals, it is a party that was launched during the democracy and social justice cycle. But it seems to have already realized that this cycle is also coming to an end and that economic development, in the broader context of sustainable development, is imperative. The discourse of President Rouseff is clearly developmental, or social developmental, since it tries to combine a reduction of inequality with nationalist and responsible economic policies.

Brazilian development will always be conditioned by its economic policy, but the essential thing is to know whether it has a political pact that allows it to define a national development strategy or a strategy of international competition. In mid-2013, when this article was revised, how could we define the Brazilian elites? Are the elites still alienated, or are nationalism and developmentalism being revived? Even more than the Lula administration, the Dilma administration is contributing to the realization of the latter alternative and to the formation of a new political pact that may be called the 2005 democratic-popular pact. The creation, as early as 2003, of the Conselho de Desenvolvimento Econômico e Social (Economic and Social Development Board), which combined business, trade union, and NGO elites, showed a desire to re-create a national political pact. The determination of both presidents to bring together the industrial bourgeoisie and the workers was always clear. Although the penetration of the PT among Brazilian left-wing intellectuals was shaken by the orthodoxy of the first years of the PT government, it is still significant. As André Singer (2009, 2012) remarked, the government's concessions to the conservative sectors led to a loss of support from part of the left wing; yet the president won the support of the mass of the poor Brazilian voters in a way that seems durable and constitutes *lulismo*. Eli Diniz and Renato Boschi (2010, 8–9) conducted a survey of the perceptions of the federal bureaucratic elite in the economic area and found that a substantial portion of the interviewees saw a significant change in the Lula administration, some since the first term, others from the second term on, "when the developmental group expands its space within the government." Yet the major economic difficulties that the Dilma administration is facing, and the ensuing poor economic results, make the formation of a developmental class coalition improbable.

The role of presidents and governments is important to the formation of a new national and popular pact and to agreement on a new national development strategy, but more fundamental is what happens in civil society and in the nation, how some social actors work toward a developmental state while other progressive social actors, particularly environmentalists, have reservations (as we saw in their opposition to the construction of power plants in Amazonia), and liberals simply oppose it. The fundamental required agreement is between industrial entrepreneurs and organized workers, but the role of the public bureaucracy and of intellectuals should not be forgotten. In Brazil today, it is no longer possible to characterize the way in which industrialists and organized workers relate to each other as just a "class struggle"; cooperation, the attempt to come to common understanding, is quite present. In May 2011, the Federation of Manufacturing Industries of the State of São Paulo (FIESP), the central trade unions (CUT and Força Sindical), and the Metalworkers Union of São Paulo organized the seminar "Bra-

zil of Dialogue, Production and Employment” in a large convention center in the Moca neighborhood, which attracted more than a thousand workers. In October of the same year the trade union federations and FIESP issued the manifesto “Por um Brasil com juros baixos: Mais produção e emprego” (For a Brazil with Lower Interest: More Production and More Employment.”

There are signs, therefore, that a new democratic and popular pact is forming, bringing together businessmen, public technobureaucrats, and workers. If this prognosis is confirmed, we are heading toward a new state-society cycle—a social and environmental developmental cycle—that will constitute a synthesis between the nation and development cycle and the democracy and social justice cycle. But such optimism will be vindicated only when Brazil eventually escapes from the macroeconomic trap of high interest rates and overvalued exchange rates that has prevailed since 1994. Progress has been made in this direction but the political obstacles are great, given the difficulty that workers have in accepting the devaluation of the currency because it will temporarily reduce their real wages, and given the even greater resistance of agribusiness to variable export taxes—a condition for the effective neutralization of the Dutch disease. The producers will be fully compensated by the devaluation of the currency, but as we recently saw in Argentina, they nevertheless oppose the tax.

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